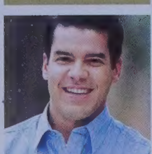
Laurentian Bank of Canada ■ **Annual Report 2002**



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LAURENTIAN
BANK

withyou

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"It's a pleasure to serve our clients because we're proud of the organization we work for."

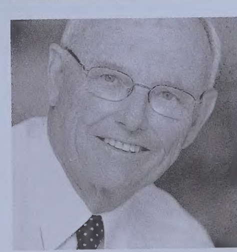
SUZIE SAVARD
Manager, Customer Service,
Val d'Or branch

"We are our clients' partners in managing their businesses. They have every right to expect that we provide quality advice and manage their assets as though they were our own."

STÉPHANE LAFOREST
Investment Advisor,
Laurentian Bank Securities

"Placing your personal business in the hands of an organization means establishing a relationship of trust. I feel honored to personify that link between the client and the organization."

MARIE-JULIE PHILIPPE
Customer Service Representative,
McGill College branch



“It is always a pleasure to get to know clients. I enjoy giving them all the time necessary and developing a long-term relationship based on knowledge and trust.”

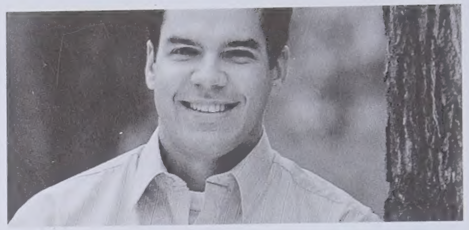
André Allard
Senior Advisor, Financial Services

“It is our job to ensure that the Bank complies with the law when managing its business. Although we do not have direct contact with clients, by taking on this duty we help maintain clients' trust in and satisfaction with the Bank.”

Antonia Nadile
Secretary, Legal Affairs and Secretary

“Our clients are entitled to expect that we play a strategic role as advisors, that we put ourselves in their shoes in order to truly understand their business objectives. For me, that's what it means to be a banker.”

Danièle Vaillancourt
Assistant Vice-President, Commercial Banking

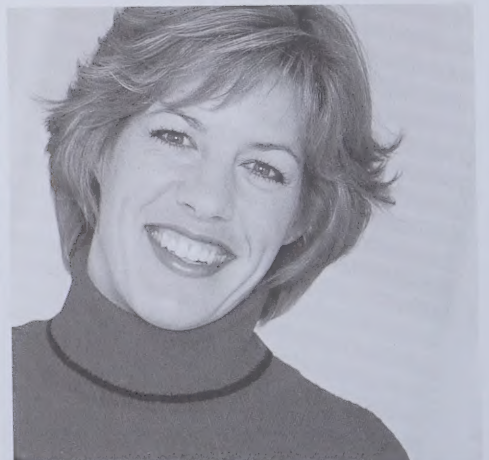


“When clients tell me they feel comfortable doing business with us is when I conclude that we have truly reached our customer service objectives.”

Denis Jones
Vice-President,
Sales – BLC-Edmond de Rothschild

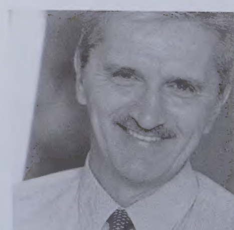
“At Laurentian Bank, we make sure our clients are advised by the person best suited to them in terms of approach and values. In my view, that's crucial.”

Lynda Ranger
Manager, Langelier/Beaubien branch



“At B2B Trust, we make a priority of offering top level customer service with knowledgeable solutions for all products we have developed for our clients.”

Greg McNaughton
Manager, Sales – B2B Trust



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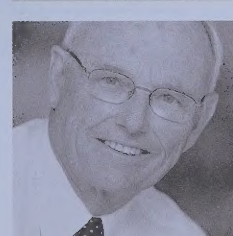
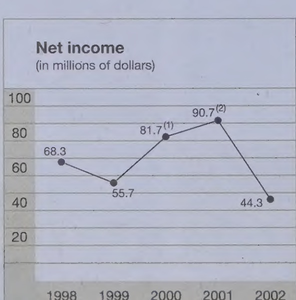
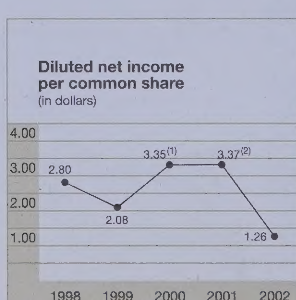


financialhighlights

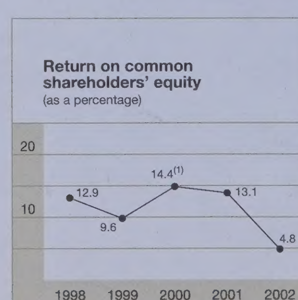
(in millions of dollars, except per share amounts)	2002	2001	2000
PER COMMON SHARE			
Net income per common share			
basic	$ 1.27	$ 3.40	$ 3.36
diluted	$ 1.26	$ 3.37	$ 3.35
Dividends	$ 1.16	$ 1.06	$ 0.94
Book value	$ 26.57	$ 27.08	$ 24.90
Share price			
High	$ 41.30	$ 33.25	$ 26.00
Low	$ 25.53	$ 24.00	$ 15.50
Close	$ 28.08	$ 27.41	$ 24.50
Number of shares outstanding (in thousands)			
Average	23,095	22,710	20,154
End of period	23,409	22,868	20,154
Price/earnings ratio	22.1 x	8.1 x	7.3 x
Market to book value	106 %	101 %	98 %
Dividend yield	4.13 %	3.87 %	3.84 %
EARNINGS			
Total revenue	$ 600.4	$ 630.8	$ 490.7
Net income	$ 44.3	$ 90.7	$ 81.7
Net income available to common shareholders	$ 29.3	$ 77.2	$ 67.7
Other income			
As a % of total revenue	42.4 %	42.1 %	43.2 %
As a % of average assets	1.37 %	1.55 %	1.47 %
Return on average assets	0.24 %	0.53 %	0.57 %
Efficiency ratio			
Non-interest expenses as a % of total revenue	67.8 %	70.6 %	72.0 %
Return on common shareholders' equity	4.8 %	13.1 %	14.4 %
BALANCE SHEET ASSETS AND ASSETS UNDER ADMINISTRATION			
Balance sheet assets	$ 18,596	$ 17,696	$ 14,741
Cash resources and securities	$ 3,504	$ 2,506	$ 1,669
Loans and bankers' acceptances	$ 14,324	$ 14,426	$ 12,392
Deposits by individuals	$ 12,008	$ 11,520	$ 10,203
Assets under administration	$ 12,429	$ 13,053	$ 14,208
Cash resources and securities			
As a % of balance sheet assets	18.8 %	14.2 %	11.3 %
Deposits by individuals			
As a % of total deposits	80.2 %	79.3 %	83.4 %
As a % of loans and bankers' acceptances	83.8 %	79.9 %	82.3 %



(1) $71.7 million, excluding special items
(2) $90.9 million, excluding special items



(1) $2.85, excluding special items
(2) $3.38, excluding special items

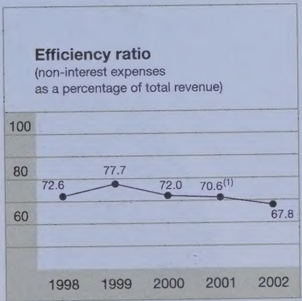


(1) 12.3%, excluding special items

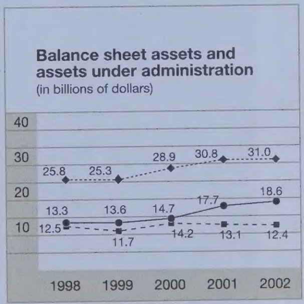
As at October 31	2002	2001	2000
QUALITY OF ASSETS			
Net impaired loans			
As a % of loans and bankers' acceptances	0.1 %	0.2 %	0.1 %
Allowance for loan losses	$ 218	$ 134	$ 116
As a % of gross impaired loans	96 %	84 %	95 %
As a % of gross loans and bankers' acceptances	1.50 %	0.93 %	0.93 %
Geographic distribution of loans[1]			
Quebec	51 %	51 %	44 %
Ontario	35 %	32 %	39 %
Western Canada	14 %	17 %	17 %
Loan distribution[1]			
Personal	29 %	26 %	25 %
Residential mortages	50 %	51 %	51 %
Commercial mortgages	7 %	7 %	9 %
Commercial and other	14 %	16 %	15 %
CMHC insured mortgages			
As a % of residential mortgages	61 %	59 %	56 %
CAPITALIZATION			
Shareholders' equity, non-controlling interest in a subsidiary and debentures	$ 1,269	$ 1,222	$ 1,009
Tier 1 capital ratio	8.8 %	8.1 %	7.7 %
Total capital ratio	13.5 %	12.4 %	11.3 %
Common equity to risk-weighted assets	7.2 %	7.0 %	6.0 %
OTHER INFORMATION			
Number of full-time equivalent employees	3,730	3,884	3,481
Number of branches	214	230	204
Number of automated banking machines	351	360	315

As at October 31				2002	2001
BY REGION	Quebec	Ontario	West	Total	Total
ABMs	288	51	12	351	360
Branches	155	48	11	214	230
Point-of-sale Financing	3,449	2,614	1,517	7,580	6,660
Point-of-sale Terminals	1,673	391	67	2,131	2,374
Brokerage Offices	9	1	—	10	13
Business Service Centers	8	8	2	18	13
Independent Financial Advisors	3,354	5,054	3,722	12,130	10,000

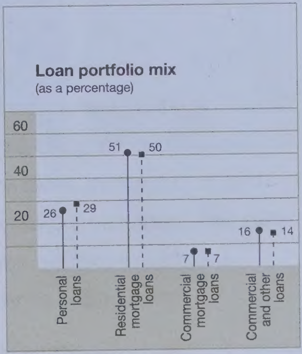
[1] *Excluding assets purchased under reverse repurchase agreements.*



(1) 70.4%, excluding special items



- Balance sheet assets
- Assets under administration
- Total



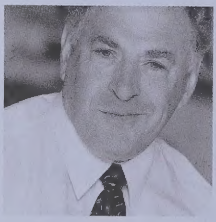
- 2001
- 2002

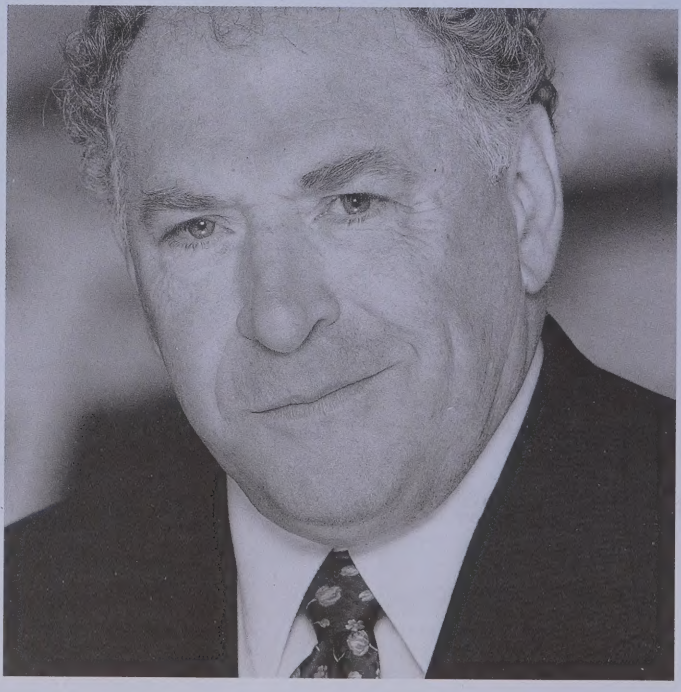
For you. Our commitment is to make every effort to meet the needs and expectations of each of our customers, employees, partners and shareholders. It represents our undertaking to offer our retail and commercial clientele banking products and services that contribute to their financial security and success.

With you. Our determination is to achieve our objectives by developing preferred relationships with each of our customers, employees, partners and shareholders.

For Laurentian Bank of Canada, these are the necessary conditions to improve our performance and pursue our development. We want to transform this vision into a significant competitive edge and an indispensable factor to attain our objectives in a demanding economic environment.

messagetoshareholders





“While remaining extremely vigilant to avoid the pitfalls that are still present in this economic climate, the Bank is confident that its customers, retail and commercial alike, will appreciate the distinctive qualities and the competitive advantages of its product and service offering.”

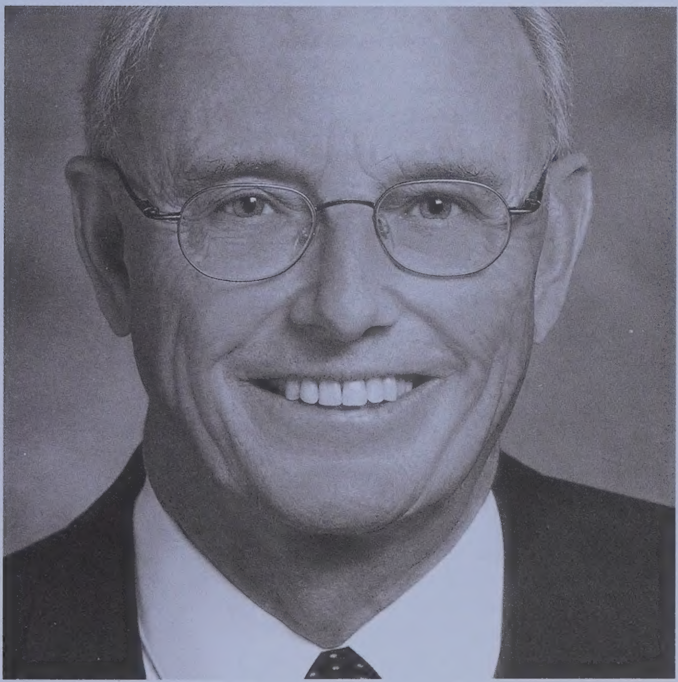
Raymond McManus
President and Chief Executive Officer

A turbulent year

Throughout the year, most North American financial institutions have had to absorb a series of shocks that have substantially eroded their revenues and profitability. It also hampered their manoeuvrability in managing their growth strategies.

Not only did the meltdown of technology stocks, particularly in the telecommunications sector, continue to take its toll, but the repercussions of the terrorist attacks of September 11, 2001, along with other geopolitical factors, gradually undermined consumer confidence while clouding the business climate in the United States, Canada and many other industrialized countries. In addition, a series of financial scandals triggered a far-reaching crisis of investor confidence. The impact of these events will continue to hinder the performance of financial institutions and of various savings and investment vehicles over the next year.

In this adverse business environment, we reacted quickly and efficiently in using the financial instruments and resources at our disposal to minimize the impact of market conditions on our performance. We have thus met our commitments, not only to our clientele and employees, but also to our shareholders. Simultaneously, we have applied initiatives to optimize the profitability of our operations and sustain the development of our principal activities.



"The development of a rigorous and effective integrated risk management framework remains a priority for the Bank. The general context of our industry together with more stringent requirements stipulated by government and regulatory authorities, have signalled a renewed sense of urgency to this activity."

Jon K Grant, O.C.
Chairman of the Board

Preventive measures

Given the market conditions that prevailed during 2002, we have mobilized our resources to put in place a series of preventive and control measures to avoid the recurrence of problem situations. Specifically, we have thus systematically and exhaustively reviewed our commercial loan portfolios. In addition, we performed an in-depth examination of our current policies and loan practices. For instance, Commercial Financial Services has redefined the strategic orientation of its commercial loan activities and reduced the maximum limit for a loan to a single new borrower to $20 million. It also reviewed the underwriting, monitoring and pricing of commercial loans to gradually optimize return on risk-related capital.

Risk management policies have also received close attention throughout the year. The development of a rigorous and effective integrated risk management framework remains a priority for the Bank. The general context of our industry together with more stringent requirements stipulated by government and regulatory authorities, have signalled a renewed sense of urgency to this activity.

In the second quarter of 2002, the Bank increased its loan loss provisions by $70 million. This additional provision was recorded for loan losses related to the Bank's exposure to Teleglobe and to the deterioration of the overall credit quality of other commercial loans.

This provision had a major negative impact on our financial results. For the year ended October 31, 2002, the Bank reported net income of $44.3 million or $1.26 diluted per common share, compared to $90.7 million or $3.37 diluted per common share in 2001. Without the additional $70 million provision for loan losses, the 2002 net income would have been $86.8 million or $3.09 diluted per common share.

Having reviewed our loan policies we no longer have any significant commitments in what proved to be the highest risk sectors of the economy. The Bank can now capitalize on its major assets – the direct and indirect distribution networks of Retail Financial Services, Commercial Financial Services and B2B Trust – to power its development and maximize its profitability.

The 2002 results can best be evaluated in this context.

The Bank can now capitalize on its major assets – the direct and indirect distribution networks of Retail Financial Services, Commercial Financial Services and B2B Trust – to power its development and maximize its profitability.

Effective initiatives

Also in this context, we have pursued the development of our operations and applied a number of initiatives whose objectives are as follows:

- Highlight our competitive advantages in markets and niches where the Bank already has an edge;
- Improve the management and operations processes of our distribution network;
- Continue to enhance the efficiency and profitability of the Bank.

During 2002, Retail Financial Services systematically implemented the principal elements of its Sales Added Value Added (SAVA) program adopted in 2000. The results of this program are extremely positive. For instance, the automation of business processes has allowed the processing of a larger volume of transactions and has generated additional revenues while enabling employees and advisors alike to provide superior quality service to the Bank's customers.

A critical examination of the Bank's direct and indirect retail distribution networks revealed that a key objective is the efficient and effective integration of these networks. This objective reflects the necessity of optimizing Bank operations to present complete banking and financial services that are adaptable to the requirements and expectations of each customer.

The Bank employees, be they in branches, corporate sectors or other areas of the organization, have actively participated in the formulation and implementation of these initiatives. Their role in the development of the Bank's activities and in its results is essential to the attainment of the Bank's short and long-term objectives.

We plan to concretely increase their contribution and adopt the necessary measures to ensure that their experience and expertise is enhanced to meet customer needs. The most essential of these measures include the creation and offering of specific training programs.

Key to development

The initiatives and measures put in place in 2002 are closely linked to the development of the Bank's strengths which have been honed during its rich 156 year history.

After having "reinvented the role of banker" and provided to our entire organization a customer-centred orientation, today the Bank plans to establish and develop – *for you* and *with you* – preferred business relationships. Supported by a line of advanced technological tools and more importantly by an expert and attentive team, this approach will contribute to both the development and profitability of the Bank's activities and the financial security of each and all.

While remaining extremely vigilant to avoid the pitfalls that are still present in this economic climate, the Bank is confident that its customers, retail and commercial alike, will appreciate the distinctive qualities and the competitive advantages of its product and service offering. This is the key to continuous improvement of performance and sustained development.

After having considered for some time the possibility of transforming the Bank into a holding company, we have decided, as part of our Business Plan, to maintain the present structure, which provides sufficient flexibility to attain our efficiency objectives and pursue our growth. A thorough review has indeed shown that the costs associated with a holding company structure, namely: diseconomies of scale, a share price discount and loss of flexibility, would largely exceed the benefits of such a structure. We will consequently continue pursuing partnership opportunities as they present themselves.

During this turbulent period, the Bank has highlighted its distinctiveness and preserved its significant strengths to fuel its growth. In this respect the support and the contribution of the Bank's employees, customers, partners and shareholders has been indispensable. We extend our thanks and wish to assure everyone of our dedication and our determination to redouble our efforts to make the Bank an institution that is constantly drawing closer to their needs and expectations. *For you. With you.*

Jon K. Grant, O.C.
Chairman of the Board

Raymond McManus
President and Chief Executive Officer

Board of Directors

On behalf of the members of the Board of Directors and all the employees of Laurentian Bank of Canada, we would like to express our appreciation to Mr. Henri-Paul Rousseau, who was our President and Chief Executive Officer from February 1994 to August 2002. Over the past eight years, the sustained development of the Bank, fuelled by opportune acquisitions, important transactions and the launching of B2B Trust, was stimulated by the vision he consistently exhibited. In addition, Mr. Rousseau also demonstrated exceptional leadership in building a solid and experienced team.

We would also like to commend Mr. Alex K. Paterson, O.C. and Mr. Jacques Perron, who have left the Board of Directors after having been members since 1988 and 1995 respectively, for their active contribution to the development and the vitality of the Bank. Mr. Paterson recently served on the Human Resources and Risk Management Committees and was Chair of the Nominating and Governance Committee. Mr. Perron served on the Audit and Risk Management Committees.

In 2002, the Board of Directors welcomed three new members, Mr. L. Denis Desautels, O.C., Mr. Jean Bazin and Mr. Jean-Guy Desjardins, while designating Mr. Pierre Michaud as Vice-Chairman of the Board.

The number of directors has been set at 15 on February 8, 2001.

performance and financial objectives

The following table summarizes the Bank's accomplishments with respect to its 2002 performance and financial objectives.

2002 OBJECTIVES	2002 RESULTS
Earnings per common share target of $3.85 or $3.82 diluted	This objective was not achieved. The Bank reported diluted earnings per common share of $1.26. The 2002 results were significantly affected by the additional $70 million provision for credit losses related to the Bank's exposure to Teleglobe and other commercial loans.
Improve the efficiency ratio from a level of 70.6% in 2001	This objective was achieved. In 2002, the Bank's efficiency ratio improved by 280 basis points to 67.8%.
Obtain a competitive return compared to that of the banking industry	This objective was not achieved. Return on common shareholders' equity was 4.8% compared to an industry average of 10.8% in 2002.

For 2003, the Bank has established the following objectives:

2003 OBJECTIVES
Diluted earnings per common share target of $2.80
Improve efficiency in each of the Bank's lines of business
Maintain BIS capital ratios at or above 8.5% for Tier I and 13.0% for Total capital

review of operations

Throughout 2002, despite an often demanding economic climate, the lines of business and corporate sectors of the Bank spurred the growth of their operations with their usual vision and determination, which highlighted the assets that make Laurentian Bank a unique institution in the Canadian financial products and services industry.

By committing themselves, *for you*, to enhance their offering of products and services and improve customer service, the business lines, supported by the corporate sectors, are making a concerted effort to cultivate preferred relations with their various clienteles, *with you*. In the past year, this commitment powered the activities and achievements of the Bank. It is also shaping the new face of relationships with individuals, businesses, partners and shareholders, whose interests the Bank constantly has at heart.

Retail Financial Services

The integration of the acquired Scotiabank branches in Quebec, completed in 2001, yielded the anticipated results, notably in terms of business retention, synergies and increased revenues.

Invigorated by the success of this large-scale initiative, Retail Financial Services has focused its energies on harmonizing the resources available in the branch network, to serve both local and regional markets.

This initiative enabled the Bank to better pinpoint and understand the needs and expectations of its principal clienteles — retail customers and small and medium businesses — and to align its services with the relative importance of its primary markets.

Retail Financial Services also concentrated on enhancing the line of services offered in the branch network, to tailor them to customers' needs. Particular attention was paid to micro-businesses, that can now obtain loans of up to $250,000 through their local branch.

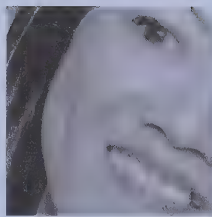
In 2002, Retail Financial Services applied SAVA II, the second and final phase of the Sales Added Value Added (SAVA) program. The SAVA program has given rise, in the course of the year, to over fifty projects related to the six pillars of development of this business line: customer information, customer relations management, process efficiency, alignment to customer needs, potential revenues and change management.

Designed to make Retail Financial Services a more customer-oriented organization, the SAVA program has considerably transformed the management methods of Bank branches and the other three types of distribution networks: "indirect" (point-of-sale financing, mortgage brokers, VISA), "direct" (Telebanking Centre, Outbound Call Centre) and "electronic" (ABM, Internet, Interac). The ultimate goal of the SAVA program is to facilitate the integration of these distribution networks. In the meantime, SAVA has spawned an innovative approach to customer service, together with the definition of new distribution methods. This approach has been labelled the *Entrepreneurship* project.

Underpinned by the principles of decentralization, accountability and recognition, the pilot project is intended to highlight the role of branch employees as the principal link with customers. In the coming months, the *Entrepreneurship* project will test and analyse the efficiency of these new practices within a number of branches grouped into three local markets.

“I am pleased to see how much importance Laurentian Bank attaches to the quality of its customer relationships, relationships based on the trust between each client and our financial institution.”

ROSEMAY LIU
Administrative Assistant, Control and Planning,
Retail and Commercial Financial Services



The success of the SAVA program has enabled Retail Financial Services to move closer to attaining its objectives, specifically by providing the line of business with the necessary tools to develop a closer, preferred business relationship with each customer.

This preferred relationship is grounded in detailed information and in-depth knowledge of the requirements, expectations and objectives of each retail customer. Equipped with a range of technological tools and relying on the optimization of management and distribution modes, the Bank's advisors have sufficient means and time to establish and cultivate this type of relationship in a highly efficient framework.

“Listening — paying close, personal attention to each client — that’s the key to building a solid, long-lasting business relationship that allows clients to feel secure.”

ANNIE LEMAY
Customer Service Representative, Promenades Saint-Bruno branch

In parallel, customers can rest assured that at Laurentian Bank, their advisor has the requisite training, experience and comprehensive information to clearly understand their situation and offer them products and services adapted to their needs.

The Bank is confident that the development of these preferred relationships with its customers, reinforced by an efficient and effective organization, and by motivated and attentive employees, is the key to its development and profitability.

Point of sale financing activities continued to advance during 2002. Today this service is available in nearly 7,600 establishments across Canada. Merchants participating in these agreements can now use a Web site, dedicated to this type of transactions. By facilitating the routing and analysis of credit applications, the new technological tools enable merchants and their customers to complete their transactions simply and efficiently.

Commercial Financial Services

During 2002, Commercial Financial Services examined the quality of its loan portfolios, reviewed its strategic orientations and adopted preventive and proactive measures intended to ensure optimum risk control and improve its performance.

This line of business thus emphasized business processes related to underwriting operations, credit approval mechanisms, control measures and pricing, together with recruitment and training of the human resources required to develop these activities.

While consolidating its advantages and ensuring the continuity of its established business, Commercial Financial Services realigned its operations and focused its resources and energies on its principal markets.

As part of this new orientation, the Bank sold the majority of its portfolio of mid-market business loan and related deposit accounts of the Vancouver Commercial Banking Centre. This transaction reflects the Bank's objective of concentrating its commercial lending activities in Quebec and Ontario. Real estate financing activities, however, will be maintained in the principal urban markets across Canada.

Moreover, Commercial Financial Services continued to forge strategic partnerships with companies having complementary activities. Agreements concluded with CIT Financial and Farm Credit Canada are the latest additions to Commercial Financial Services' existing alliances with Penfund Management, the Business Development Bank of Canada (BDC) and Textron Financial Canada.

To further the reconfiguration and consolidation of its loan activities, Commercial Financial Services plans to build closer and more enduring business relationships with its customers that will be mutually beneficial and that will directly contribute to enhancing the Bank's profitability.

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B2B Trust and Agency Banking

This line of business is comprised of B2B Trust, a federally chartered subsidiary, and Agency Banking, a division of the Bank. Together they supply financial products and services to more than 12,000 independent financial advisors across Canada.

B2B Trust is a leader in investment loans and the second largest administrator of self-directed retirement savings plans in Canada. In addition, private label financial products are offered to non-bank financial institutions and large scale retailers.

Agency Banking and B2B Trust are major suppliers of wholesale deposit services distributed by financial advisors and deposit agents while Agency Banking also offers a full line of mortgage loans through independent brokers.

The appointment of Mr. Bernard Piché to the position of President and Chief Executive Officer of B2B Trust, announced in August 2002, marked a new phase in the development of the Bank's subsidiary, and confirmed the progress achieved since the initial public offering in 2001.

Superior quality of service and innovative products have enabled B2B Trust and Agency Banking to build an enviable reputation and occupy a position of choice within their markets.

This was validated with the establishment of new partnerships and the signing of several agreements during 2002, resulting in an increased client base for B2B Trust and Agency Banking, essential to fuel their growth and improve profitability.

Mutual fund company Clarington Funds turned to B2B Trust to develop a line of investment loans that is distributed to its clientele under its own label. B2B Trust also became a supplier of investment loans to Dynamic Mutual Funds, a mutual fund family that distributes a selection of B2B Trust financial products.

Furthermore, Sun Life Assurance Company of Canada, a member of the Sun Life Financial Group, announced the creation of a loan program that is offered through B2B Trust to customers that hold or want to purchase a SunWise Individual Variable Annuity Contract, the next generation of segregated funds.

Similarly, B2B Trust and CI Mutual Funds have concluded a partnership agreement for the distribution of B2B Trust investment loans by CI, which markets them under its own brand as a complement to its product line.

Cartier Partners Financial Group and B2B Trust followed through with the letter of intent signed in 2001, by developing a line of investment loans and a chequing account under Cartier Partners' brand name offered to individuals that hold assets in the Cartier Money Market Fund.

Moreover, B2B Trust purchased the personal loans and assumed most of the deposit liabilities of Sun Life Financial Trust, a member of the Sun Life Financial group of companies. The total value of loans acquired stands at about $38 million, and approximately $98 million in deposits were assumed. As part of the same transaction, Agency Banking acquired the mortgage loans of Sun Life Financial Trust, valued at about $29 million.

As part of the same agreement, Sun Life Financial Trust also assigned to B2B Trust two marketing and distribution agreements with IPC Financial Network and IQON Financial, a member of the Sun Life Financial group of companies, under which B2B Trust will provide each of these entities with a selection of private label financial products for distribution to their respective customers.

The partnership established between B2B Trust and The Standard Life Assurance Company yielded a new development in 2002; a second investment loan program was launched. This program, which includes a large array of investment loan products, including investment loans for segregated funds, is marketed by the Standard Life distribution network.

The distribution of new products, the signing of new agreements and the reinforcement of established partnerships are all closely linked to the advanced technological infrastructure that the Bank continues to upgrade to optimize its operations and to enhance the efficiency of each of its lines of business.

The Bank's advances in technology have previously been publicly recognized, most notably by the Fédération de l'informatique du Québec and at the Canadian Information Productivity Awards. During 2002, B2B Trust was honoured once again, winning the Quebec Finance Grand Prix Award in the category Financial Institution of the Year. This award for excellence acknowledges the vitality of financial industry professionals, together with their innovative capacity and the determining role that financial institutions play towards the economic development of Quebec and throughout Canada.

Wealth Management and Brokerage

The first year of operations of this consolidated line of business was significantly impacted by the downward movements of financial markets and by spiralling investor confidence that boosted the popularity of protected capital investment products and low risk performance funds.

To some extent, this business environment highlighted the quality of the products and services offered by Wealth Management and Brokerage to private and institutional investors. The portfolio management activities of this business line advanced significantly, in both the institutional investment sector and the private wealth management sector; net sales growth exceeded 25% in 2002.

The BLC-Edmond de Rothschild Asset Management joint venture has become the linchpin of Wealth Management's efforts to consolidate its activities. R Funds thus absorbed the IRIS Funds family, while several funds from the two families were merged, reducing their number from 33 to 22.

At the end of 2002, BLC-Edmond de Rothschild Asset Management began to market the R Distinction Portfolio, a new product that consists of five asset allocation funds (commonly known as fund of funds) each corresponding to five types of investors previously identified by LBC Financial Services: prudent, conservative, balanced, dynamic and bold. By improving the existing

"Financial institutions have to evolve as their clients evolve, have to meet clients at their level. The flexibility to do that is one of the things I find especially important at Laurentian Bank."

YASSIR BERBICHE
Assistant Vice-President, Treasury

tools and by offering a selection of mutual funds that includes 18 funds differentiated by asset allocation strategy, the R Distinction Portfolio enhances the offering to investors. For their part, investment advisors in branches can now devote more time and energy to cultivating preferred business relations founded on a greater understanding of their needs and expectations.

Laurentian Bank Securities continued to successfully develop its fixed income securities brokerage activities aimed at the institutional market. The Bank's subsidiary has become a Canadian leader in this field.

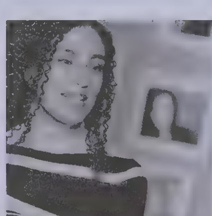
Since the fourth quarter of 2002, Laurentian Bank Securities has been authorized to sell insurance products, including life, disability, critical illness and group insurance. To this effect, a special division was created whose primary role will be to contribute to training advisors, particularly in financial planning, and to provide the support that will enable them to offer their customers an integrated wealth management approach that also meets their insurance needs.

Wealth Management and Brokerage's optimization of retail brokerage activities continued in troubled global financial markets, affected by political and economic instability. Under these conditions, simply maintaining the client assets entrusted during this extremely difficult period has been quite an achievement.

In the Wealth Management and Brokerage line of business, the Bank is confident that the competence of its managers and the quality of its product offerings will enable it to increase assets under administration and generate additional revenues under more normal market conditions.

“All our clients' transactions result in a series of operations. We always aim to carry out these operations as efficiently as possible while maintaining the highest standards of quality.”

FAÏZA BENZAKOUR
Manager, Operations and Taxes,
Mortgage Administration Centre



Corporate sectors

The organizational structure of the Bank includes four Corporate sectors: Treasury, Financial Markets and Risk Management; Finance and Strategic Development; Information Technology, Administrative Services and Real Estate Management; Human Resources and Corporate Affairs. Below is an overview of their activities during 2002.

TREASURY, FINANCIAL MARKETS AND RISK MANAGEMENT

The primary role of the Treasury, Financial Markets and Risk Management sector is to support and manage the risks associated with all of the Bank's transactional operations, namely risks related to the markets, interest rates, foreign exchange, credit and liquidity, as well as operating risks.

This sector thus closely monitors the Bank's policies and risk management mechanisms, including the corporate insurance portfolio. In a context marked by challenges such as market uncertainty, the complexity of transactions and new regulations, the Bank is increasingly emphasizing the role and functions of the Risk Management Committee and other parties to its Integrated Risk Management Framework, particularly with regard to the management of operational risk.

Attuned to the importance of effective management, the Bank refined its market risk evaluation system (value at risk or VAR), which it now applies to its portfolios of financial and foreign exchange instruments. It also developed risk control models and introduced a tool to measure risk-adjusted return on capital (RAROC).

Throughout 2002, the Treasury, Financial Markets and Risk Management sector ensured optimal management of the Bank's capital. Dynamic management of the balance sheet thus enabled the Bank to restore and improve its capital ratios through securitization and portfolio insurance activities, along with an issue of preferred shares.

In 2002, the sector responded to difficult business and market conditions with initiative and prudence. This approach spawned efficient management of interest rate variations, a larger increase in liquidities and a more prominent presence on the options markets, specifically swap and bond options. Carried out within a rigorous risk management framework, these operations enabled the Bank to benefit from exceptional market volatility and to realize an impressive return.

Finally, the sector provided support to Commercial Financial Services in its efforts related to underwriting operations, credit approval mechanisms and reviewed the Bank's credit policies and procedures.

FINANCE AND STRATEGIC DEVELOPMENT

Formed of five units – Corporate Controller, Accounting, Taxation, Investor Relations and Credit Insurance – this corporate sector plays a critical role in the strategic development of the Bank. It co-ordinates and supports business lines initiatives, by allocating the necessary resources and carries out a control function to ensure that these initiatives and activities of the Bank meet the established financial and strategic requirements and objectives.

The Finance and Strategic Development sector devoted considerable energy to coordinating the Bank's customer-oriented 2002-2003 strategic plan and redirecting of the Bank's resources toward priority activities that offer the highest growth potential. This strategic plan rests on benchmarking against the best industry practices and on the assessment by each business line of their competitive advantages.

Furthermore, the Finance and Strategic Development sector oversaw the application of new regulations regarding accounting, taxation and integrated risk management.

In the current business environment, particularly in financial markets, these efforts are of vital importance, not only to ensure the Bank's compliance with legal and regulatory requirements, but also to optimize its profitability and maintain its reputation.

The Finance and Strategic Development sector will continue to play a strategic role in the realization of new acquisitions or alliances, while continuing to oversee the planning and control of financial and taxation issues.

INFORMATION TECHNOLOGY, ADMINISTRATIVE SERVICES AND REAL ESTATE MANAGEMENT

The Information Technology, Administrative Services and Real Estate Management sector adopted a five-year real estate management master plan intended to ensure efficient management of available space and reduce operating costs both at head office and throughout the branch network.

The highlights of this master plan include the establishment of standards for premises layout, the grouping of support functions, the subleasing of space not used by branches and the disposition of real estate assets. This plan is already bearing fruit in terms of leasing costs; the savings realized will be channelled into improving the appearance and layout of branches.

The Information Technology, Administrative Services and Real Estate Management sector also supervises the operations of the five administrative centres, namely: the Financing Centre, Mortgage Loan Administration, Investment Products and Securities, the Control and Savings Centre and Processing and Operations.

During 2002, the sector completely revamped its mortgage loan management process. The restructuring of this sector of activities, the review of processes in use at the Mortgage Loan Administration Centre and the introduction of management tools have reduced the processing time for mortgage transactions to less than 24 hours. As a result, the performance indices reveal an abandon rate below 5% and an average call response time of 20 seconds. By maintaining an excellent level of service and improving productivity, the Bank can now efficiently process a greater volume of applications. Today the Mortgage Loan Administration Centre abides by best practices in support services, as demanded by customers, partners and the branch network.

The administrative centre for point-of-sale financing, the Financing Centre, created a Web site dedicated to participating merchants. Along with their customers, they can now obtain a reply to credit applications within one hour, and often within minutes. To better respond to their needs, functionalities will be added to the site, especially to promote and sell other Bank products. By the end of 2002, the Financing Centre had processed more than 122,000 loan applications for a sales volume exceeding $630 million.

Regarding software applications, the Information Technology, Administrative Services and Real Estate Management sector continued to develop the Bank's data warehouse and supported the implementation of the account aggregator service launched in February 2002.

This service, accessible through the MyTotalPicture.com Website, enables Bank customers who use the Internet to aggregate their accounts from several financial institutions. In addition, customers can access practical financial management tools online and receive personalized advice adapted to their situation and their specific needs.

Furthermore, the integration of the B2B Trust partnerships was completed using the Bank's technology infrastructure dedicated to developing and providing private label products. The specialized systems operating these partnerships are essential to allow the Bank's subsidiary to improve its efficiency and performance.

HUMAN RESOURCES AND CORPORATE AFFAIRS

During 2002, the Human Resources and Corporate Affairs sector, in charge of functions related to human resources development, legal affairs and public affairs as well as the secretariat of the Bank, devoted its attention primarily to the Bank's policies and practices regarding corporate governance and human resources management.

Corporate governance, attentively scrutinized by regulatory bodies, has attracted much attention in the past year, particularly in the financial sector. The Bank maintains scrupulous vigilance over the implementation and application of its corporate governance policies and practices, along with their regulatory compliance. Furthermore, it takes pride in having been one of the first financial institutions to separate the functions of President and Chief Executive Officer and that of Chairman of the Board.

Aside from pursuing negotiations to renew the unionized employees' collective agreement, the Human Resources and Corporate Affairs sector made a concerted effort to develop and refine human resources management policies and practices.

Inspired by best practices in this area, the sector is striving in particular to establish and implement new policies and approaches that will grant both management and employees with the most useful and efficient tools to perform their tasks and attain their objectives.

This vision is the driving force behind the human resources development required to mould an organization of banking services focused on establishing preferred relationships with each of the Bank's customers.

Within the Bank, the employee represents the first direct contact with the customer for all products and services. Employee attitudes and competencies must therefore exemplify outstanding efficiency and constant attention to the customer's needs and expectations.

The publication of a new Employee Guide is a practical illustration of the direction that the Bank intends to follow in human resources management. The Employee Guide is a reference tool for non-unionized employees on work conditions, employee benefits and company policies, including the Bank's Code of Ethics.

Furthermore, the Human Resources and Corporate Affairs sector ensures optimal dissemination and circulation of pertinent information for managers and employees, along with information related to Bank activities in general. This task is specifically incumbent on Public Affairs and Communications, which is responsible for internal and external communications. Public Affairs also ensures daily coordination of information and messages to various audiences, while enhancing the Bank's brand image within the financial services industry as well as the general public.

The Legal Affairs and Compliance unit is responsible for ensuring the Bank's compliance with laws, regulations and guidelines issued by governments and regulatory authorities. This function revolves around two primary objectives: to optimize the efficiency of the Bank's policies and practices related to compliance with regulations, and to improve risk management. In addition, this unit examines all legal aspects of matters involving the Bank's various sectors, its customers, partners or regulatory bodies.

Human Resources and Corporate Affairs plays an active role in supporting the Board of Directors by assuming tasks relating to the secretariat of the Bank and its subsidiaries.

The financial results of each business line are presented in Note 24 of the consolidated financial statements, on page 77 of this Annual Report.

management's discussion
and analysis of results of operations and financial condition

This section of the Annual Report is the Management's analysis of the results of operations and financial condition of the Bank for the year ended October 31, 2002. The information is presented on the same basis as in the Consolidated Financial Statements prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Office of the Superintendent of Financial Institutions Canada (OSFI).

"In 2002, the Bank reinforced its capital ratios to record levels. This strength is important to protect the Bank's depositors and creditors from risks inherent in its activities."

ROBERT CARDINAL
Senior Executive Vice-President
and Chief Financial Officer

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements. These statements are subject to random factors and risk factors, several of which are independent of the Bank's will, and can have an impact on the Bank's operations, performance and results. These factors may affect actual results which could differ from anticipated performance. These factors include, but are not limited to, legislative and regulatory changes, intensification of competition, evolution of technology, financial market conditions and the economic climate in Canada and around the world, along with the Bank's success at managing costs related to executing its business plan. The Bank cautions that the foregoing list of factors is not exhaustive. Readers are advised not to place disproportionate confidence in the forward-looking statements.

Methodology of analysis of results

Management evaluates the Bank's performance on a core basis, that is excluding special items, and on a reported basis, as presented in the consolidated financial statements. Management views special items as transactions that are not part of normal day-to-day operations or are unusual in nature and could potentially distort the analysis of trends. This distinction is made in order to ensure that Management's analysis of recurring trends is not hindered. Special items have been reported in 2001 and are presented in Table 2 of this analysis on page 23 of the Annual Report; there were no special items in 2002.

Economic review

In 2002, the world economy was slightly stronger compared to last year, which was marked by a sharp slowdown of industrial production. However, the economic recovery was less pronounced than expected by economic forecasters.

The European economies seemed to have had difficulty to put the slowdown behind them. In particular, the German economy, the largest in the Euro-zone, stagnated, with unemployment levels increasing seriously. As a whole, the principal European economies experienced negative growth in industrial production during the year and moderate retail sales.

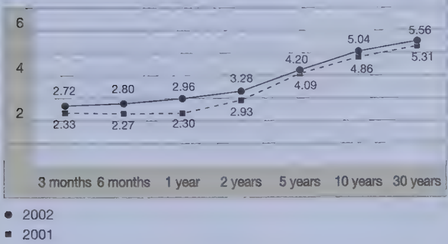
There was a sharp drop in consumer confidence in the second half of the year. Before the confirmation of an economic recovery, the European Central Bank and the Bank of England maintained their key rates unchanged in 2002.

The United States (U.S.) economy returned to growth in 2002. Nevertheless, the economic recovery remained soft and even troubling, to the point of raising fears of deflation. Weakness in the labour market and lower consumer confidence led to slower retail sales, the principal engine of growth in the American economy. Housing starts continued to rise throughout the year, levelling off in the latter part of the year.

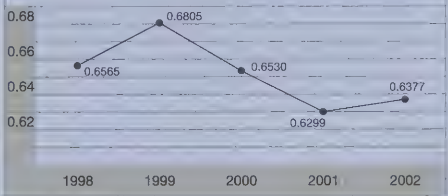
Given the slow recovery and the U.S. geopolitical situation, the Federal Reserve further eased monetary conditions at the beginning of 2002. While it maintained U.S. monetary policy for most of the year, recently the Federal Reserve aggressively reduced the fund rate to 1.25%, a historically low level; despite signs of economic recovery, it perceived a risk of a continued slowdown. The loosening of fiscal policy after the events of September 11, 2001 also contributed to strong final demand, but to a return of Federal budget deficit. Given the prolonged monetary easing, a stronger U.S. economic recovery is expected in 2003.

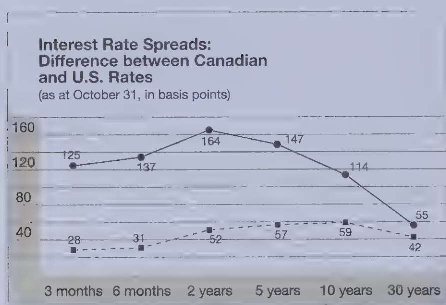
The Canadian economy, which is closely linked to the U.S. economy, surprised by its vitality in 2002 with the construction sector being the most important growth factor. Obviously the monetary easing, which lowered borrowing costs, was very efficient. Stimulated by strong job creation, the retail sales sector performed well. These items compensated for the weakness in industrial production which only recently began to show positive growth, due to its strong dependence on U.S. exports. In the middle of the year, given new signs of inflationary pressure, the Bank of Canada began to tighten monetary policy.

Yield Curve: Treasury Bills and Government of Canada Bonds
(as at October 31, as a percentage)

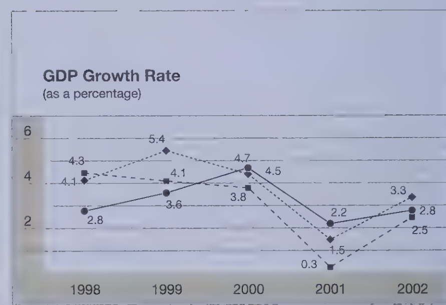


Canadian Dollar Average Exchange Rate
(in U.S. Dollars)





● 2002
■ 2001



● World
■ U.S.
◆ Canada

With the increase by the Bank of Canada of the key interest rate by 0.75% in three steps, short and medium term interest rates increased in 2002. Given the U.S. Federal Reserve policy of monetary easing, spreads between Canadian and U.S. rates increased throughout the year. On the other hand, the Canadian – U.S. dollar exchange rate had not changed significantly at year-end 2002, having been volatile during the fiscal year.

As a whole, world economic growth remained fragile in 2002, but should accelerate in 2003. The level of world economic recovery is dependent on the American economy, as well as the European economies, which face structural challenges, both of which being affected by geopolitical problems.

Laurentian Bank Securities Research Department expects that real GDP growth in Canada will be 3.3% for the whole of 2002 and 3.6% in 2003.

Summary of financial results

For the year ended October 31, 2002, the Bank reported net income of $44.3 million or $1.26 diluted per common share compared to $90.7 million or $3.37 diluted per common share in 2001. The decrease in net income is principally due to an additional provision of $70 million which was related to the Bank's exposure to Teleglobe and other commercial loans recorded during the second quarter of 2002, and a $19.2 million decrease in net interest income associated with the lower interest rate environment that reduced margins on variable rate loans and deposits. Return on common shareholders' equity decreased to 4.8% in 2002 from 13.1% in 2001.

The above financial results included the following special items in 2001 that had a net impact of ($0.2) million or ($0.01) diluted per common share. There were no special items in the 2002 results. Also refer to Table 2 on page 23 of the Annual Report.

- A gain of $10.9 million ($10.9 million after taxes or $0.48 diluted per share) related to the reinsurance of a block of credit insurance premiums;
- A dilution gain of $12.4 million ($12.4 million after income taxes or $0.54 diluted per share) arising from the initial public offering (IPO) of 6.4 million treasury common shares of B2B Trust;
- A provision of $17.5 million ($11.4 million after income taxes or $0.50 diluted per share) related to the restructuring of the Bank's operations;
- An income tax charge of $12.1 million ($0.53 diluted per share) principally reflecting the reduction of future income tax assets resulting from Federal and Provincial corporate income tax rate reductions.

TABLE 1

Highlights of Financial Results

for the years ended October 31
(in millions of dollars except per share amounts)

	2002	2001	2000	02/01 growth
Net interest income	$ 346.0	$ 365.2	$ 278.9	(5) %
Other income	254.4	265.6	211.8	(4)
Total revenue	600.4	630.8	490.7	(5)
Provision for credit losses	111.0	35.0	25.0	217
Non-interest expenses	407.3	445.5	353.3	(9)
Income taxes	32.5	57.6	30.7	(44)
Income before non-controlling interest in a subsidiary	49.6	92.7	81.7	(46)
Non-controlling interest in net income of subsidiary	5.3	2.0	—	165
Net income	$ 44.3	$ 90.7	$ 81.7	(51) %
Net income available to common shareholders	$ 29.3	$ 77.2	$ 67.7	(62) %
Average number of common shares				
outstanding (in millions)	23.1	22.7	20.2	2 %
outstanding after dilution (in millions)	23.3	22.9	20.2	2 %
Net income per common share				
basic	$ 1.27	$ 3.40	$ 3.36	(63) %
diluted	$ 1.26	$ 3.37	$ 3.35	(63) %
Return on common shareholders' equity	4.8 %	13.1 %	14.4 %	

TABLE 2

Summary of Special Items

for the years ended October 31
(in millions of dollars except per share amounts)

	2002		2001	
	Amount	Diluted per share	Amount	Diluted per share
Net income available to common shareholders	$ 29.3	$ 1.26	$ 77.2	$ 3.37
Special items				
Reinsurance gain on a block of credit insurance premiums (First quarter of 2001)	—	—	(10.9)	(0.48)
Dilution gain resulting from the IPO of a subsidiary (Third quarter of 2001)	—	—	(12.4)	(0.54)
Restructuring provision (net of $6.1 million of income taxes) (Third quarter of 2001)	—	—	11.4	0.50
Reduction of corporate income tax rates (First & Third quarters of 2001)	—	—	12.1	0.53
Total of special items	—	—	0.2	0.01
Net income available to common shareholders before special items	$ 29.3	$ 1.26	$ 77.4	$ 3.38

Operating results

TOTAL REVENUE

Laurentian Bank of Canada recorded total revenue of $600.4 million in 2002 compared to $607.5 million in 2001 (excluding the gain of $10.9 million related to reinsurance of a block of credit insurance premiums and the dilution gain of $12.4 million ensuing from the IPO of a subsidiary), corresponding to a decrease of $7.1 million or 1.2% over the past twelve months.

The principal factors attributable to the decrease in the Bank's total revenue are:

- A significant decrease in the Bank's net interest income from $365.2 million in 2001 to $346.0 million in 2002 essentially due to a decrease in variable rate margins which was partially offset by an increase in other income;
- Excluding the special items mentioned above, an increase in other income attributable primarily to higher lending and deposit fee income and higher treasury and financial markets revenue.

NET INTEREST INCOME

Net interest income was $346.0 million, a decrease of $19.2 million or 5.3% from the $365.2 million level in 2001. Net interest income represents 1.86% of average assets in 2002 compared with 2.13% in 2001 while average assets increased by 8.1% during the year. The margin decrease is attributable to several factors: the reduction in the prime lending rate over the year, which reduced variable rate margins, secondly, the increase in liquidities and securities as shown in Table 3 below and thirdly, a change in asset mix resulting from lower loan growth and a strong increase in the deposit base, since the Bank's customers invested their assets more prudently in these difficult markets. The reduced loan growth is primarily a result of lower consumer loan demand, lower investment and commercial loan activity and securitization of residential mortgages.

Off-balance sheet derivative financial instruments had a $10.2 million positive impact on net income in 2002 compared to $2.6 million in 2001. These instruments were used by the Bank to maintain overall interest rate risk within predefined limits.

TABLE 3

Changes in Net Interest Income

for the years ended October 31
(in millions of dollars and as a percentage)

	2002			2001			Change		
	Average volume	Interest	Average rate	Average volume	Interest	Average rate	Due to volume	Due to rate	Total
ASSETS									
Cash resources	$ 452	$ 8.6	1.90 %	$ 408	$ 12.7	3.11 %	$ 1.4	$ (5.5)	$ (4.1)
Securities	2,486	75.8	3.05	1,576	71.4	4.53	41.2	(36.8)	4.4
Fixed rate loans	10,628	664.9	6.26	10,401	700.9	6.74	15.3	(51.3)	(36.0)
Variable rate loans	3,966	216.3	5.45	3,768	290.5	7.71	15.3	(89.5)	(74.2)
Other	1,038	0.7	0.07	1,023	1.8	0.18	—	(1.1)	(1.1)
Total – assets	$ 18,570	$ 966.3	5.20 %	$ 17,176	$ 1,077.3	6.27 %	$ 73.2	$ (184.2)	$ (111.0)
LIABILITIES									
Notice and demand deposits	$ 2,565	$ 11.5	0.45 %	$ 2,337	$ 23.7	1.01 %	$ 2.3	$ (14.5)	$ (12.2)
Fixed date deposits	12,512	572.3	4.57	11,880	644.3	5.42	34.3	(106.3)	(72.0)
Other	2,264	19.0	0.84	1,756	12.3	0.70	3.5	3.2	6.7
Shareholders' equity, non-controlling interest in a subsidiary and subordinated debentures	1,229	27.7	2.25	1,203	34.4	2.86	0.7	(7.4)	(6.7)
Total – liabilities	$ 18,570	$ 630.5	3.40 %	$ 17,176	$ 714.7	4.16 %	$ 40.8	$ (125.0)	$ (84.2)
Off-balance sheet derivative financial instruments	—	$ 10.2	0.06 %	—	$ 2.6	0.02 %	—	$ 7.6	$ 7.6
Net interest income		$ 346.0	1.86 %		$ 365.2	2.13 %	$ 32.4	$ (51.6)	$ (19.2)

Table 3 on page 24 of this Annual Report presents the changes in net interest income from 2001 to 2002.

OTHER INCOME

Other income reached $254.4 million in 2002 compared to $242.3 million in 2001, excluding the gain of $10.9 million related to reinsurance of a block of credit insurance premiums and a dilution gain of $12.4 million ensuing from the IPO of a subsidiary. The increase of $12.1 million or 5.0% is mainly attributable to higher lending and deposit fee income and higher treasury and financial markets revenue.

Table 4 presents the changes in other income from 1998 to 2002.

Lending fees stood at $48.6 million in 2002 compared to $43.6 million in 2001, for an increase of $5.0 million or 11.5%. The increase is essentially attributable to growth in financial services provided to commercial customers and commercial mortgage borrowers. Other income generated by Visa revenues and deposit service charges increased by $2.9 million or 4.7%, from $61.3 million in 2001 to $64.2 million in 2002. This increase is attributable to an increase in volume and pricing in 2002.

Treasury and financial markets operations revenue increased substantially to $61.9 million in 2002 compared with $48.7 million in 2001, an increase of $13.2 million or 27.1%. Throughout the year 2002, the Bank took advantage of volatile market conditions as well as the declining and low interest rate environment.

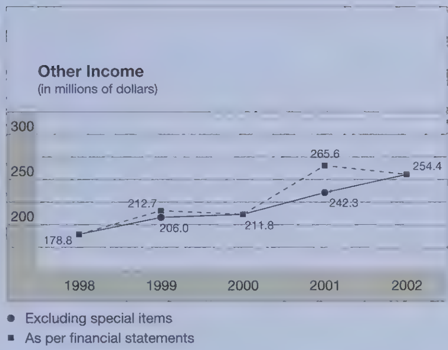


TABLE 4
Other Income

for the years ended October 31
(in millions of dollars)

	2002	2001	2000	1999	1998	02/01 growth
REVENUES FROM LOANS AND DEPOSITS						
Deposit service charges	$ 51.4	$ 47.8	$ 39.4	$ 38.3	$ 38.9	8 %
Lending fees	48.6	43.6	32.7	29.7	19.4	11
Visa	12.8	13.5	8.8	8.0	7.7	(5)
Sub-total – revenues from loans and deposits	112.8	104.9	80.9	76.0	66.0	8
As a % of average assets	0.61 %	0.61 %	0.56 %	0.59 %	0.55 %	
OTHER						
Revenues from treasury and financial market operations	61.9	48.7	40.5	43.7	35.3	27
Commissions from brokerage operations	19.2	23.3	23.8	17.3	13.4	(18)
Securitization revenues	16.1	18.7	22.2	25.4	15.4	(14)
Mutual fund revenues	13.9	17.9	16.8	14.5	16.4	(22)
Revenues from registered self-directed plans	13.2	14.4	12.9	13.4	13.1	(8)
Insurance revenues	5.3	4.5	4.5	4.5	5.0	18
Trust services	1.8	1.4	2.3	4.8	7.0	29
Other	10.2	8.5	7.9	6.4	7.2	20
Special items	—	23.3	—	6.7	—	n/a
Sub-total – other	141.6	160.7	130.9	136.7	112.8	(12)
As a % of average assets	0.76 %	0.94 %	0.91 %	1.06 %	0.93 %	
Total – other income	$ 254.4	$ 265.6	$ 211.8	$ 212.7	$ 178.8	(4) %
As a % of average assets	1.37 %	1.55 %	1.47 %	1.65 %	1.48 %	

Commissions from brokerage operations decreased to $19.2 million in 2002 from $23.3 million in 2001, a decrease of $4.1 million or 17.6%, reflecting market conditions in retail brokerage.

Securitization revenue stood at $16.1 million in 2002, down by $2.6 million or 13.9% from $18.7 million in 2001. This decline is mainly attributable to a decrease in the level of activity and a reduction of previous years deferred securitization gains. Securitizations are used principally for funding purposes and to improve the Bank's financial structure. For further explanation see Notes 1 and 5 of the consolidated financial statements of this Annual Report.

Mutual fund revenues decreased to $13.9 million in 2002, down $4.0 million or 22.3% from $17.9 million in 2001. The decrease is principally due to the sale of the IRIS family of funds to BLC-Edmond de Rothschild Asset Management (BLC-EdR), a 50.1% joint venture accounted for under the proportionate consolidation method.

Lastly, the 2001 comparative figures for other income include two special items that total $23.3 million. These are the $10.9 million gain related to the reinsurance of a block of credit insurance premiums and the $12.4 million dilution gain on the IPO of B2B Trust.

PROVISION FOR CREDIT LOSSES

The provision for credit losses was $111.0 million in 2002 or 0.77% of average loans and bankers' acceptances versus $35.0 million or 0.25% of average loans and bankers' acceptances in 2001. The increase is principally related to $70 million of additional provisions for credit losses recorded for commercial loans and other loans during the second quarter associated with its total exposure to Teleglobe and its exposure to other commercial loans in the manufacturing sector principally in Ontario. The provision for credit losses for personal loans increased by $7.1 million or 44%, from $16.1 million in 2001 to $23.2 million in 2002. The increase is principally attributable to growth in consumer loans as well as an increase in consumer loans credit losses from 0.49% of loans in 2001 to 0.72% in 2002.

Table 5 presents the changes in the provision for credit losses from 2000 to 2002.

NON-INTEREST EXPENSES

Non-interest expenses decreased to $407.3 million during 2002 from $428.0 million in 2001 (excluding the $17.5 million restructuring provision), representing a decrease of $20.7 million or 4.8%. These expenses decreased essentially as a result of the ceasing of goodwill amortization, a reduction in performance related variable compensation costs and outsourcing of technology operations. The efficiency ratio improved from 70.6% in 2001 (70.4% excluding special items) to 67.8% in 2002.

Salaries and employee benefits costs decreased to $198.7 million in 2002 from $212.9 million in 2001, a decrease of $14.2 million or 6.7%. The decrease is principally attributable to a reduction in performance and share value related variable compensation costs and to the transfer of operations related to the IRIS family of funds to BLC-EdR.

Premises and technology costs increased from $115.9 million in 2001 to $120.1 million in 2002, an increase of $4.2 million or 3.6%. Depreciation charges increased from $36.1 million in

TABLE 5

Provision for Credit Losses

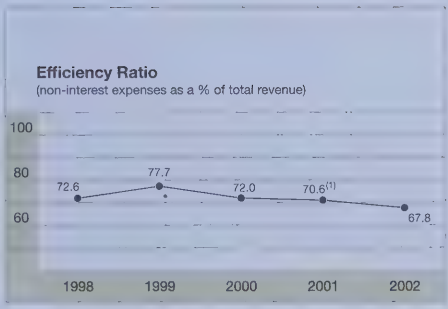
for the years ended October 31
(in millions of dollars)

	2002	2001	2000
Personal loans	$ 23.2	$ 16.1	$ 9.9
Residential mortgages	2.9	2.2	3.1
Commercial mortgages	2.6	4.2	5.5
Commercial loans and other	82.3	12.5	6.5
Total – provision for credit losses	$ 111.0	$ 35.0	$ 25.0
As a % of average loans and bankers' acceptances	0.77 %	0.25 %	0.21 %

2001 to $39.2 million in 2002, due to additional depreciation charges on recent years' investments. Equipment and computer services costs increased from $36.2 million in 2001 to $37.2 million in 2002, due principally to the increase in outsourced technology operations during the year. Rent and property taxes increased slightly to $34.2 million in 2002. Even though the Bank had fewer branches in 2002, overall rent expense increased due to the effect of an increased proportion of leased branches.

Other expenses decreased from $93.7 million in 2001 (excluding the $17.5 million restructuring provision and the $5.5 million goodwill amortization charge) to $88.5 million in 2002, a decrease of $5.2 million due to miscellaneous items.

Table 6 illustrates the changes in non-interest expenses from 1998 to 2002.



(1) 70.4%, excluding special items

EFFICIENCY RATIO

The Bank's efficiency ratio during the year ended October 31, 2002 was 67.8% compared to 70.6% in 2001, 70.4% excluding special items (gain of $10.9 million related to the reinsurance of a block of credit insurance premiums, dilution gain of $12.4 million arising from the IPO of a subsidiary and a $17.5 million restructuring provision).

TABLE 6

Non-Interest Expenses

for the years ended October 31
(in millions of dollars)

	2002	2001	2000	1999	1998	02/01 growth
SALARIES AND EMPLOYEE BENEFITS	$ 198.7	$ 212.9	$ 177.2	$ 162.9	$ 154.3	(7) %
As a % of average assets	1.07 %	1.24 %	1.23 %	1.26 %	1.28 %	
PREMISES AND TECHNOLOGY						
Depreciation	39.2	36.1	30.9	27.0	23.8	
Equipment and computer services	37.2	36.2	27.7	28.3	28.4	
Rent and property taxes	34.2	33.5	28.9	25.2	25.1	
Maintenance and repairs	6.5	7.1	6.3	6.9	7.1	
Public utilities	2.0	2.4	2.3	2.7	2.9	
Other	1.0	0.6	0.5	0.2	0.2	
Sub-total – premises and technology	120.1	115.9	96.6	90.3	87.5	4
As a % of average assets	0.65 %	0.67 %	0.67 %	0.70 %	0.72 %	
OTHER EXPENSES						
Taxes and insurance	25.2	25.9	17.8	22.6	27.2	
Fees and commissions	21.3	17.1	18.9	20.2	18.0	
Communications and travelling expenses	18.6	18.8	17.2	16.9	16.9	
Advertising and business development	11.2	10.9	9.4	10.1	9.0	
Stationery and publications	7.1	7.2	6.3	5.8	5.7	
Recruitment and training	1.9	2.4	1.8	2.9	2.0	
Other including restructuring costs	3.2	34.4	8.1	12.8	4.6	
Sub-total – other expenses	88.5	116.7	79.5	91.3	83.4	(24)
As a % of average assets	0.47 %	0.68 %	0.56 %	0.71 %	0.69 %	
Total – non-interest expenses	$ 407.3	$ 445.5	$ 353.3	$ 344.5	$ 325.2	(9) %
As a % of average assets	2.19 %	2.59 %	2.46 %	2.67 %	2.69 %	
As a % of total revenue (efficiency ratio)	67.8 %	70.6 %	72.0 %	77.7 %	72.6 %	

The improvement of the Bank's efficiency ratio is attributable largely to the increase in other income and the reduction of non-interest expenses associated with performance related variable compensation.

One of the Bank's main objectives is to maintain and improve efficiency in its lines of business. It plans to focus on activities it has clearly defined as strengths which it plans to build upon as discussed in the Outlook section on page 39 of this Annual Report.

INCOME TAXES

The provision for income taxes for the year 2002 was $32.5 million compared to $57.6 million, which included special charges of $12.1 million essentially related to the impact of the Federal and Provincial corporate income tax rate reductions on future income tax assets in 2001. Including special items, the effective tax rate increased to 39.5% during 2002 from 38.3% in 2001.

Excluding the impact of special items described in Table 2, the provision for income taxes was $32.5 million in 2002 compared to $45.5 million in 2001, representing an effective tax rate of 39.5% in 2002 compared to 35.3% in 2001. The provision for income taxes and the effective tax rates are also described in Note 17 of the consolidated financial statements on page 71 of this Annual Report.

Balance sheet assets and assets under administration

The year 2002 was marked by a consolidation in commercial portfolios following a deterioration of credit quality particularly in the technology and telecommunications sectors and by lower credit demand from other commercial sectors.

The retail sector generated above average loan demand for real estate and consumer goods. On the other hand, volatile and declining markets affected demand for investment loan products and the value of certain client assets under administration.

During 2002, the Bank substantially increased its liquidities and, furthermore, following the securitization of over $0.7 billion of mortgage loans, the Bank's capital ratios have now reached record levels.

On October 31, 2002, total assets of the Bank, that is total balance sheet assets and assets under administration, stood at $31.0 billion, compared with $30.8 billion on October 31, 2001. Balance sheet assets stood at $18.6 billion, up 5% from 2001, whereas assets under administration totalled $12.4 billion, $0.7 billion lower than last year. These changes are explained in more detail in the balance sheet assets and assets under administration sections that follow.

BALANCE SHEET ASSETS

Balance sheet assets stood at $18.6 billion at October 31, 2002 compared to $17.7 billion at year-end 2001, for an increase of $0.9 billion or 5%. Liquidities and securities were increased by $1.0 billion over the year to allow a more conservative management of the balance sheet; this also generated additional interest income given the interest rate context of 2002. In fact, liquidities reached 18.8% of total balance sheet assets at October 31, 2002 compared to 14.2% in 2001. The loan portfolio, excluding assets purchased under reverse purchase agreements, decreased to $13.3 billion at October 31, 2002 from $13.6 billion in 2001. Before new residential and commercial mortgage loan securitizations of $730 million, the loan portfolio increased by $0.5 billion over the past twelve months. There was a $333 million increase in personal loans, a decrease of $188 million in commercial loans and mortgages and an increase of $351 million in residential mortgages.

Table 7 on page 29 of this Annual Report presents additional information on changes in balance sheet assets.

TABLE 7
Balance Sheet Assets

as at October 31
(in millions of dollars)

	2002	2001	2000	02/01 growth
Cash resources and securities	$ 3,504	$ 2,506	$ 1,669	40 %
Personal loans	3,865	3,532	2,863	9
Residential mortgages	6,646	6,971	5,885	(5)
Commercial mortgages	956	910	1,094	5
Commercial loans and other	1,873	2,160	1,783	(13)
Assets purchased under reverse repurchase agreements	870	650	638	34
	14,210	14,223	12,263	—
Allowance for loan losses	(218)	(134)	(116)	
Total loans	13,992	14,089	12,147	(1)
Other assets	1,100	1,101	925	—
Balance sheet assets	$ 18,596	$ 17,696	$ 14,741	5 %
Cash resources and securities as a % of balance sheet assets	18.8 %	14.2 %	11.3 %	
Loans as a % of balance sheet assets	75.2 %	79.6 %	82.4 %	

LOAN PORTFOLIO MIX

The Bank's loan portfolio consists of personal loans, residential mortgages, commercial mortgages and commercial loans. At year-end the loan portfolio stood at $13.3 billion (excluding assets purchased under reverse repurchase agreements), down from $13.6 billion in 2001.

On October 31, 2002, the personal loan portfolio totalled $3.9 billion, representing 29% of the Bank's loan portfolio compared to 26% in 2001.

Residential mortgages represent 50% of this portfolio on the same date compared to 51% in 2001, whereas the proportion of commercial mortgages is 7%.

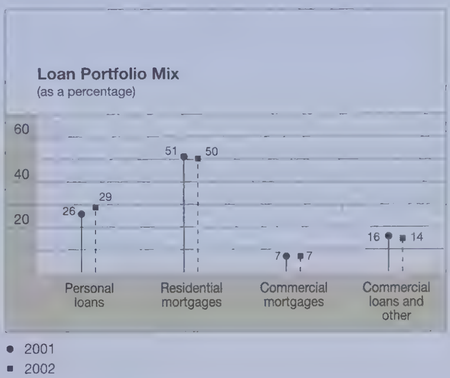
Commercial loans and other loans, a portfolio consisting mostly of loans to Canadian small and medium-sized businesses, decreased by $287 million or 13.3% during the year, from $2.2 billion in 2001 to $1.9 billion at October 31, 2002. This portfolio now represents 14% of the Bank's loan portfolio compared to 16% last year.

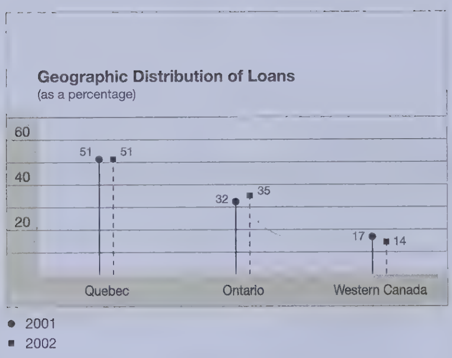
Geographic diversification

On October 31, 2002, the geographic distribution of Bank loans remains diversified. Bank loans located in Quebec remained at the same levels in 2002 and 2001 at 51% while loans located in Ontario increased from 32% to 35%.

Loan size by commercial borrower

During 2002, the Bank completed an in-depth review of its commercial loan portfolios and related strategies for commercial lending. As a result, it decided to reduce the limit for the maximum loan to a single new borrower from $40 million to $20 million. The limit for mortgage financing projects remained at $20 million.





Insurance and guarantees

At the end of 2002, 61% of the Bank's residential mortgages were insured by the Canada Mortgage and Housing Corporation (CMHC). Portfolio insurance enables the Bank to decrease its overall credit risk and improve its capital ratios.

A wide range of commercial properties, shopping centres and office buildings as well as plants, warehouses and industrial condominiums were held as security for commercial mortgages.

Most of the investment loans are secured by an average of four to five mutual funds, providing good diversification of risk. The value of these investments must respect the terms and conditions of loan agreements at all times. A large proportion of the Bank's loan portfolio is thus insured or secured by assets pledged as collateral by the borrowers.

LOAN PORTFOLIO EVOLUTION

Personal loans

On October 31, 2002, the personal loan portfolio stood at $3.9 billion, an increase of $333 million or 9.4% compared with $3.5 billion on the same date in the year 2001.

Consumer loans and investment loans represent the larger portion of the portfolio at 45% and 31% respectively.

The growth in the personal loan portfolio is mainly attributable to $182 million of consumer loans generated by the Point-of-Sale distribution network and an increase of $55 million or 10% in branch based consumer lines of credit. Investment loans, including RRSP loans, increased by over $119 million, due to a successful RRSP campaign.

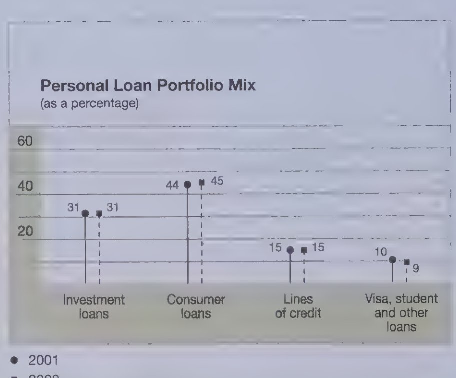
Residential mortgages

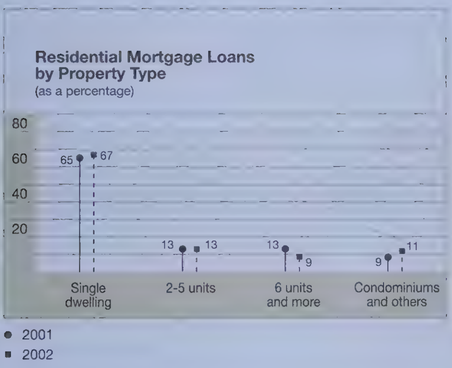
On October 31, 2002 the value of residential mortgages held by the Bank was $6.6 billion compared with $7.0 billion on October 31, 2001. Before new mortgage securitizations of $677 million, these loans increased by $351 million or 5.0% in 2002. We observed strength in the Canadian real estate market, but intense rate competition in most regions.

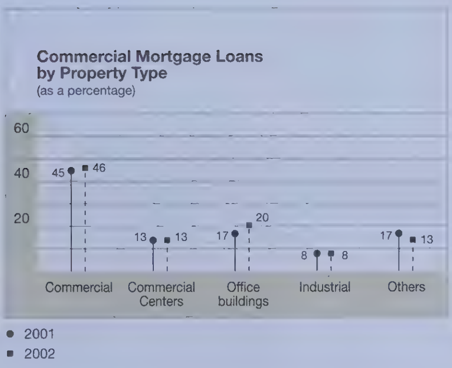
The Bank maintained its loan insurance program for its residential mortgages. On October 31, 2002, 61% of these loans were insured by the CMHC, compared with 59% in 2001. This policy is consistent with the Bank's financial management strategy where through insuring a large proportion of its residential mortgages, the Bank maintains its capacity to pursue its securitization activities and thus optimally finance its operations, manage its cash resources, improve its capital ratios and simultaneously reduce credit risks associated with this type of loan. Buildings with five units or less comprise 80% of the volume of residential mortgages outstanding, a significant number of which are single-family units, with an average loan balance of $76,500.

Commercial mortgages

The Bank's commercial mortgage loan portfolio stood at $956 million at the end of 2002, compared with $910 million on October 31, 2001. Before new commercial mortgage securitizations of $53 million, these loans increased by $99 million or 10.9% in 2002.





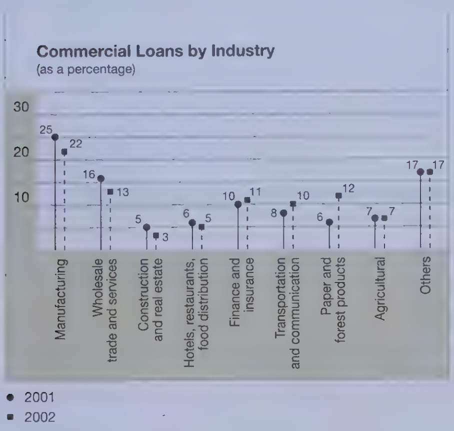


On October 31, 2002, Ontario represented 54% of the commercial mortgage loan portfolio, Quebec 39% and Western Canada 7%.

Commercial loans

On October 31, 2002, the Bank held a commercial loan portfolio valued at $1.9 billion, versus $2.2 billion on October 31, 2001, equal to a decrease of $287 million or 13.3%.

The decrease in the Bank's commercial loan portfolio is principally a result of actions taken during the second quarter of 2002 when the Bank completed an in-depth review of its commercial loan portfolios and related strategies for commercial lending. The review covered: risk management policies and risk adjusted pricing for the commercial portfolio and the level of provisions for credit losses for all portfolios. The Bank reduced the limit for the maximum loan to a single new borrower and improved commercial loan underwriting and pricing to gradually optimize returns for risks taken.



Commercial loans are well diversified by industry. The largest portion of the loan portfolio, 22%, is in the manufacturing sector. The balance of the portfolio is well diversified as shown in the accompanying chart. The Other sector, which represents 17% of the portfolio, includes social services, health and certain other industries. The Bank's exposure to the communications sector was $40 million at October 31, 2002.

IMPAIRED LOANS

Gross impaired loans totalled $227.0 million at October 31, 2002, and represent an increase of $67.4 million from October 31, 2001, due essentially to the deterioration of credit quality in commercial loans and other loans. Specific allowances were increased by $83.9 million from $48.5 million in October 2001 to $132.4 million at October 31, 2002, including the additional $70 million provision associated with the Bank's exposure to Teleglobe and other commercial loans in the manufacturing sector principally in Ontario. The general allowance was $85.5 million at October 31, 2002 compared to $85.0 million at year-end 2001. Net impaired loans decreased to $9.1 million or 0.1% of total loans and bankers' acceptances at the end of year from $26.1 million and 0.2% at October 31, 2001.

TABLE 8
Impaired Loans

as at October 31
(in millions of dollars)

	2002			2001		
	Gross	Specific allowances	Net	Gross	Specific allowances	Net
Personal loans	$ 24.4	$ (8.6)	$ 15.8	$ 23.1	$ (6.5)	$ 16.6
Residential mortgages	14.1	(6.9)	7.2	21.1	(5.0)	16.1
Commercial mortgages	26.6	(17.2)	9.4	37.2	(15.9)	21.3
Commercial loans and other	161.9	(99.7)	62.2	78.2	(21.1)	57.1
Total	$ 227.0	$ (132.4)	$ 94.6	$ 159.6	$ (48.5)	$ 111.1
General allowances			(85.5)			(85.0)
Total – net impaired loans			$ 9.1			$ 26.1
As a % of total loans and bankers' acceptances			0.1 %			0.2 %

Following the adoption by the Bank during 2002 of the new guideline issued by the OSFI related to general allowances for credit risk, the Bank revised its related methodology. The new measurement for general allowances takes into account pools of loans with common risk characteristics; therefore the Bank allocated the general allowance to its various loan portfolios. The general allowance of $85.5 million as at October 31, 2002 was allocated as follows: $61.1 million to specific loan portfolios and the remaining $24.4 million remained unallocated for prudential reasons. The unallocated general allowance assessment includes consideration of regulatory requirements, general economic and business conditions as well as changes in portfolio composition. See Note 4 to the consolidated financial statements on page 61 of this Annual Report for more detail.

ASSETS UNDER ADMINISTRATION

Assets under administration consist of mortgage loans under management related to securitization activities, assets held by customers, for which the Bank provides services such as investment, trading, administrative services and collection of investment income, as well as assets of self-directed plans offered by its subsidiary B2B Trust.

The Bank, through its subsidiary Laurentian Bank Securities and its joint venture interest in BLC-EdR, also manages personal, institutional and mutual fund portfolios.

On October 31, 2002, the assets administered by the Bank stood at $12.4 billion compared with $13.1 billion on October 31, 2001. The year over year decrease in self-directed retire-

TABLE 9
Assets under administration

as at October 31
(in millions of dollars)

	2002	2001	2000	02/01 growth
Self-directed RRSPs and RRIFs	$ 5,545	$ 6,324	$ 6,975	(12) %
Mortgage loans under management	2,055	2,289	2,432	(10)
Mutual funds	1,157	1,238	1,164	(7)
Corporate trust	2,058	1,053	1,167	95
Clients Brokerage Assets	1,316	1,513	1,872	(13)
Personal trust	298	636	598	(53)
Total – assets under administration	$ 12,429	$ 13,053	$ 14,208	(5) %

TABLE 10

Deposits

as at October 31
(in millions of dollars)

	2002	2001	2000	02/01 growth
Deposits by individuals				
Notice and demand	$ 1,985	$ 1,701	$ 1,412	17 %
Fixed date	10,023	9,819	8,791	2
Sub-total – deposits by individuals	12,008	11,520	10,203	4
As a % of total deposits	80.2 %	79.3 %	83.4 %	
Business and other				
Notice and demand	750	618	438	21
Fixed date	2,210	2,380	1,598	(7)
Sub-total – business and other	2,960	2,998	2,036	(1)
As a % of total deposits	19.8 %	20.7 %	16.6 %	
Total – deposits	$ 14,968	$ 14,518	$ 12,239	3 %

ment plans, mortgage loans under management and client brokerage assets was partially offset by the increase in trust assets.

Deposits

Total deposits were $15.0 billion on October 31, 2002, compared with $14.5 billion on the same date in 2001, equal to an increase of $0.5 billion or 3.1%.

Personal deposits increased by $0.5 billion in 2002 to reach $12.0 billion, versus $11.5 billion in 2001. The Bank maintained its leadership with independent financial advisors through its B2B Trust and Agency Banking line of business. At October 31, 2002, deposits of this line of business were $5.0 billion compared to $4.7 billion in 2001, an increase of $0.3 billion. The deposit portfolio of Retail Financial Services was $7.0 billion at year-end 2002.

Personal deposits represented 80.2% of total deposits on October 31, 2002, compared with 79.3% on October 31, 2001. Institutional and commercial deposits remained stable at $3.0 billion in both 2002 and 2001.

Capital

Regulatory capital of the Bank is essentially comprised of common shareholders' equity, preferred shares, non-controlling interest in a subsidiary and debentures. The Bank is constantly improving its capital base, which represents an essential factor in assessing the strength and security in relation to the risks associated with its activities.

Total capital of the Bank reached $1,269 million at October 31, 2002 compared to $1,222 million at October 31, 2001, an increase of $47 million over the year.

In November 2001, the Bank redeemed its 8.75% Non-Cumulative Class A Preferred Shares Series 6 in the amount of $60 million and completed a public offering of 4 million 6.0% Non-Cumulative Class A Preferred Shares Series 9 at a price of $25 per share for an aggregate amount of $100 million. The Bank increased total preferred shares by $40 million to $200.4 million and reduced the weighted average dividend on its preferred shares by 124 basis points, from a weighted average dividend of 8.12% at October 31, 2001 to 6.88% at October 31, 2002.

Common shareholders' equity increased to $622 million at October 31, 2002 from $619 million at year-end 2001. During the year, the Bank issued 540,663 common shares for proceeds of $12 million under its stock option plan. The increase in common shareholders' equity results from: 2002 net income, proceeds from the issue of common shares, less dividends paid on preferred and common shares and the write-off of goodwill resulting from the implementation of the new accounting principle on goodwill and intangible assets. See Notes 1 and 7 to the consolidated financial statements for further detail. There were 23,408,603 common shares outstanding as at October 31, 2002 and the Bank's book value per common share was $26.57.

Tables 11 and 12 present the risk-weighted assets and the regulatory capital used to calculate the ratios established by the Bank for International Settlements (BIS).

The BIS Tier 1 and Total capital ratios increased to 8.8% and 13.5%, respectively, from 8.1% and 12.4% a year ago. The Bank reduced its risk-weighted assets by $168 million during the year. The total asset to BIS capital leverage ratio improved to 15.0 compared to 15.2 at October 31, 2001. The Bank also monitors the common equity to risk-weighted assets ratio. This ratio was 7.2% at October 31, 2002, up from 7.0% at October 31, 2001.

TABLE 11
Risk-Weighted Assets

as at October 31
(in thousands of dollars)

		2002		2001	
	BIS weighting factor	Gross notional amount	Risk-weighted amount	Gross notional amount	Risk-weighted amount
BALANCE SHEET ASSETS					
Cash and deposits with Bank of Canada	0 %	$ 166,598	$ —	$ 77,098	$ —
Deposits with other financial institutions	20 %	267,100	53,420	98,812	19,762
Cheques and other items in transit, net	20 %	19,973	3,995	8,437	1,687
Securities issued or guaranteed by Canada or provinces	0 %	2,687,440	—	2,062,732	—
Securities issued or guaranteed by municipal corporations	20 %	44,033	8,807	36,093	7,219
Other securities	100 %	240,906	240,906	207,228	207,228
	20 %	59,445	11,889	—	—
	0 %	18,233	—	15,208	—
Mortgage loans					
CMHC-insured	0 %	4,035,549	—	4,079,838	—
Other insured(1)	0 %	147,652	—	184,748	—
Other insured(1)	50 %	16,406	8,203	20,528	10,264
Residential four units and less	50 %	1,547,525	773,763	1,719,279	859,640
Residential more than four units	100 %	884,681	884,681	933,876	933,876
Non-residential	100 %	928,400	928,400	875,748	875,748
Other loans	0 %	1,293,094	—	966,194	—
	20 %	1,937	387	1,303	260
	100 %	5,136,732	5,136,732	5,307,919	5,307,919
Other assets	100 %	1,021,943	1,021,943	1,010,475	1,010,475
Goodwill and other	0 %	77,969	—	90,308	—
General allowances			81,170		82,643
Total – balance sheet assets		$ 18,595,616	9,154,296	$ 17,695,824	9,316,721
OFF-BALANCE SHEET ITEMS					
Derivative financial instruments			49,540		65,177
Guarantees and letters of credit			72,692		62,352
Total – risk-weighted assets – BIS			$ 9,276,528		$ 9,444,250

(1) *Less the guarantee-related adjustment*

TABLE 12
Regulatory Capital – BIS

as at October 31
(in millions of dollars)

	2002	2001	2000	02/01 growth
Tier I capital				
Common shares	$ 246.2	$ 234.2	$ 167.0	5 %
Retained earnings	375.8	385.1	334.7	(2)
Non-cumulative preferred shares	200.0	160.0	160.0	25
Non-controlling Tier I interests in subsidiaries	52.3	46.6	4.4	12
Less goodwill	(54.0)	(62.0)	(23.3)	(13)
Total – Tier I capital (A)	820.3	763.9	642.8	7
Tier II capital				
Permanent preferred shares	0.4	0.4	0.4	—
Subordinated debentures[1]	400.0	380.5	267.8	5
General allowances	81.2	82.7	62.6	(2)
Non-controlling interest in subsidiaries (hybrid capital instruments)	1.4	1.4	1.4	—
Total – Tier II capital	483.0	465.0	332.2	4
Less investment in non-consolidated corporations, securizations, and other	(53.9)	(58.7)	(29.9)	(8)
Regulatory capital – BIS (B)	$ 1,249.4	$ 1,170.2	$ 945.1	7 %
Total risk-weighted assets – BIS (Table 11) (C)	$ 9,276.5	$ 9,444.3	$ 8,346.3	
Tier I BIS capital ratio (A/C)	8.8 %	8.1 %	7.7 %	
Total BIS capital ratio (B/C)	13.5 %	12.4 %	11.3 %	
Financial leverage	15.0 X	15.2 X	15.7 X	
Common equity as a percentage of risk-weighted assets – BIS	7.2 %	7.0 %	6.0 %	

[1] Debentures are amortized on a straight-line basis over a five-year period prior to maturity.

In 2002, the Bank reinforced its capital ratios to record levels. This strength is important to protect the Bank's depositors and creditors from risks inherent in its activities, and allows the Bank to seize attractive business opportunities. It also contributes to maintaining a favorable credit standing.

The Bank plans to continue to generate Tier I capital required for the growth of its lines of business mainly through net income, but also by applying increasing rigour in its policies and practices for efficient risk management and balance sheet management, in part through application of its securitization programs.

One of the Bank's objectives is to maintain its capital ratios at or above 8.5% for Tier I and 13.0% for Total capital.

A discussion of Bank's risks and existing risk management measures can be found in the Integrated Risk Management section, on page 40 of this Annual Report.

DIVIDENDS

The Bank's dividend policy provides for the payout of between 30% and 40% of the net available income to its common shareholders. Common shareholders received a dividend of $0.29 per share at the end of each of the quarters of 2002 for a total of $1.16 per common share or $26.9 million, up from $1.06 per common share, or $24.1 million in 2001.

Dividends paid on preferred shares totalled $15.1 million in 2002, versus $13.5 million in 2001.

TABLE 13
Segmented Results

for the years ended October 31
(as a percentage)

	2002 Total revenue	2002 Net income	2002 Efficiency ratio	2001 Total revenue	2001 Net income	2001 Efficiency ratio
Retail Financial Services	62.2 %	70.4 %	76.5 %	64.0 %	37.7 %	79.7 %
B2B Trust & Agency Banking	15.8 %	40.3 %	53.5 %	16.4 %	28.0 %	51.5 %
Commercial Financial Services	18.2 %	(12.6) %	34.2 %	16.1 %	36.1 %	32.9 %
Wealth Management and Brokerage	3.8 %	1.9 %	92.6 %	3.5 %	(1.8) %	114.5 %

Segmented results by line of business

The Bank has four lines of business: Retail Financial Services, B2B Trust and Agency Banking, Commercial Financial Services, and Wealth Management and Brokerage.

For the year 2002, net income contributions were 70.4% from Retail Financial Services, 40.3% from B2B Trust and Agency Banking, (12.6)% from Commercial Financial Services and 1.9% from Wealth Management and Brokerage compared to 37.7%, 28.0%, 36.1% and (1.8)% respectively in 2001. The 2002 lines of business net income contributions as shown in Table 13, when compared with 2001, were affected by the additional $70 million provision for credit losses recorded in Commercial Financial Services.

RETAIL FINANCIAL SERVICES

Net income of Retail Financial Services improved to $36.3 million in 2002 from $32.9 million in 2001 and its efficiency ratio improved to 76.5% from 79.7%. The 2002 net income was negatively impacted by a decrease in net interest margins entirely compensated by a reduction in operating costs.

The improvement in the efficiency ratio is largely a result of a decrease in performance related variable compensation costs and of initiatives undertaken in the Quebec and Ontario markets. The Retail Financial Services line of business continued to implement the second and final phase of the SAVA (Sales Added, Value Added) program aimed at implementing the Bank's customer-centric focus, at improving efficiency of the sales force, as well as retaining clients and generating new sales. During 2002, the Bank introduced market-focused products and services: improved families of mutual funds including funds of funds for various client investment profiles, flexible and variable rate mortgage products as well as competitive deposit and credit insurance products.

TABLE 14
Retail Financial Services

for the years ended October 31
(in millions of dollars)

	2002	2001
Net interest income	$ 276.4	$ 290.5
Other income	96.6	98.7
Total revenue	373.0	389.2
Provision for credit losses	27.5	22.6
Non-interest expenses	285.2	310.1
Income before income taxes	60.3	56.5
Income taxes	24.0	23.6
Net income	$ 36.3	$ 32.9

TABLE 15
B2B Trust and Agency Banking

for the years ended October 31
(in millions of dollars)

	2002	2001
Net interest income	$ 73.7	$ 79.6
Other income	20.8	20.5
Total revenue	94.5	100.1
Provision for credit losses	0.8	0.9
Non-interest expenses	50.6	51.6
Income before income taxes and non-controlling interest	43.1	47.6
Income taxes	17.0	21.2
Non-controlling interest in net income of subsidiary	5.3	2.0
Net income	$ 20.8	$ 24.4

B2B TRUST AND AGENCY BANKING

This line of business is composed of B2B Trust, a subsidiary of the Bank, and the Agency Banking division. B2B Trust is a federally chartered regulated financial institution that supplies generic and complementary banking and financial products to independent financial advisors and non-bank financial institutions across Canada. The Agency Banking division distributes residential mortgages, term deposits and other related products through indirect distribution channels.

The contribution to net income of B2B Trust and Agency Banking decreased to $20.8 million in 2002 from $24.4 million in 2001. The 2002 net contribution was affected by the $3.3 million increase in B2B Trust net income attributable to non-controlling interest following the IPO in the third quarter of 2001.

For the year ended October 31, 2002, B2B Trust reported net income of $20.7 million or $0.83 per common share compared to $20.5 million or $0.99 per common share in 2001. The BIS Tier 1 and Total capital ratios were 13.3% and 17.6%, respectively, as at October 31, 2002, compared to 13.3% and 18.2% at year-end 2001.

In September 2002, B2B Trust and the Bank purchased most of the assets and assumed most of the deposit liabilities of Sun Life Financial Trust, a subsidiary of Sun Life Assurance Company of Canada and a member of the Sun Life Financial group of companies. The transaction involved purchased assets including cash in the total amount of $98 million and deposit liabilities totalling $98 million.

Starting in 2003, financial results of Agency Banking will be grouped with those of Retail Financial Services, which will manage all indirect Retail Financial Services of the Bank including Point-of-Sale financing, agent deposits and broker mortgages across Canada. This will bring more focus and synergies to the indirect Retail Financial Services operations.

TABLE 16

Commercial Financial Services

for the years ended October 31
(in millions of dollars)

	2002	2001
Net interest income	$ 67.4	$ 61.3
Other income	41.5	36.5
Total revenue	108.9	97.8
Provision for credit losses	82.7	10.7
Non-interest expenses	37.2	32.2
Income (loss) before income taxes	(11.0)	54.9
Income taxes (recovery)	(4.5)	23.4
Net income (loss)	$ (6.5)	$ 31.5

COMMERCIAL FINANCIAL SERVICES

Commercial Financial Services reported a net loss of $6.5 million in 2002 compared to net income of $31.5 million in 2001. The efficiency ratio was 34.2% in 2002 versus 32.9% in 2001. The results were affected by the additional $70 million provision for credit losses related to Bank's exposure to Teleglobe and other commercial loans recorded during the second quarter of 2002.

The Bank's commercial mortgage loan portfolio stood at $956 million at the end of 2002 compared with $910 million on October 31, 2001. In 2002, the portfolio increased by $99 million or 10.9% before new commercial mortgage loan securitizations of $53 million.

On October 31, 2002, the Bank's portfolio of commercial loans and bankers' acceptances stood at $2,205 million versus $2,496 million on October 31, 2001, equal to a decrease of $291 million or 11.7%. The decrease in the Bank's commercial loan portfolio is principally a result of actions taken following the Bank's in-depth review of all of its loan portfolios and of its strategies for commercial lending. In August 2002, the Bank sold the majority of its business loan portfolio and related deposit accounts of the Vancouver Centre. The transaction involved 20 borrowers representing outstanding balances of $15 million and is in line with the Bank's objective of refocusing its commercial lending activities in Quebec and Ontario.

WEALTH MANAGEMENT AND BROKERAGE

The Wealth Management and Brokerage sector reported net income of $1.0 million in 2002 compared to a loss of $1.6 million in 2001.

BLC-Edmond de Rothschild Asset Management (BLC-EdR) showed improved results in 2002 following the merger of the IRIS and R families of mutual funds. BLC-EdR manages total assets of $1.2 billion in its retail mutual fund, private and institutional money management divisions. Under an agreement concluded in 2001, the R Fund family absorbed all the funds previously sponsored by the Bank, namely the IRIS Funds. Since January 1, 2002, customers of the Bank and BLC-EdR have access to a full line of funds under the R Funds banner.

Laurentian Bank Securities (LBS) also improved its contribution to results. LBS has a leading fixed income trading and origination franchise along with retail brokerage activities. LBS managed total assets of $3.3 billion as at October 31, 2002, including its own assets of $2.0 billion and its customers' portfolios of $1.3 billion.

TABLE 17
Wealth Management and Brokerage

for the years ended October 31
(in millions of dollars)

	2002	2001
Net interest income	$ 0.1	$ (4.0)
Other income	22.8	25.4
Total revenue	22.9	21.4
Non-interest expenses	21.2	24.5
Income (loss) before income taxes	1.7	(3.1)
Income taxes (recovery)	0.7	(1.5)
Net income (loss)	$ 1.0	$ (1.6)

Outlook

The Bank's 2003 objective is to attain an earnings per share target of $2.80 while improving efficiency in each of its lines of business. This target reflects more conservative objectives, particularly for securitization, treasury and financial markets revenues. As a second objective, the Bank intends to maintain its capital ratios at or above 8.5% for Tier I and 13.0% for Total capital.

The Bank has clearly defined the following businesses as its strengths which it aims to focus and build upon:

- Retail Financial Services in Quebec with a growing presence in Ontario;
- Indirect Financial Services across Canada (Point-of-Sale financing, agent deposits, broker mortgages);
- B2B Trust throughout Canada;
- Commercial Financial Services mainly in Quebec and Ontario.

As part of its Business Plan, the Bank has decided to cease its transformation into a holding company and maintain the present structure which provides sufficient flexibility to attain efficiency objectives and pursue partnership opportunities as they present themselves. After a thorough review, the Bank concluded that the holding company structure costs exceeded the benefits, namely: diseconomies of scale resulting from decentralization of corporate functions, a holding company share price discount and a loss of flexibility in tax planning due to multiple legal entities.

integratedriskmanagement

Integrated Risk Management Framework

The Bank has adopted an Integrated Risk Management Framework (the Framework) that constitutes one of the main risk management measures that enable the directors to fulfill their obligations regarding evaluation of the risks the Bank faces.

Objectives of the framework

- To create a risk management culture
- To ensure that risk tolerance is consistent with the strategy and objectives of the Bank and that the Bank's resources, technology and processes are aligned to meet its objectives
- To identify and evaluate, on an ongoing basis, the major risks that the Bank faces
- To establish measures that allow maximization of the risk/return ratio
- To establish sound and prudent risk limits and risk management policies
- To establish and apply efficient internal controls
- To establish roles and responsibilities of Management regarding risk management
- To ensure that the risk management process abides by best practices in the industry

To meet these objectives, the Framework is divided into two distinct sections: control and corporate governance. The Control aspect rests on five functions: human resources, strategic planning, financial integrity, risk management and compliance. The responsibility for each function is delegated to members of senior management and is supervised by the committees of the Board of Directors of the Bank.

Risk management structure

Management has put in place a risk management structure that was approved by the Board of Directors. The Management Committee has established that market risk, liquidity risk, capital management risk, credit risk, operational risk and regulatory risk are quite controllable and measurable and can be more formally supervised. Consequently, these risks are subject to particular policies and are monitored by Management's Risk Management Committee.

Capital at risk

The Bank initiated the implementation of a model that allows it to quantify risk according to a common measure, capital at risk (CAR). This methodology allows the Bank to group and manage the various risk components to calculate the maximum potential loss that the Bank or a sector may incur with a degree of predetermined probability and for a predefined period of time. This process is intended to define the risk ele-

REGULATION

MANAGERS

CONTROL ENVIRONMENT		CORPORATE GOVERNANCE
Functions	Coordinators	
Human resources	Human resources Officer	Human resources and Corporate governance Committee
Strategic planning	Chief Executive Officer/ Chief Financial Officer	Board of Directors
Financial integrity	Chief Financial Officer	Audit Committee
Risk management	Chief Risk Officer	Risk Management Committee
Compliance	Chief Compliance Officer	Audit Committee

INTERNAL AUDIT

ment in the risk-return ratio, which contributes to evaluating the economic profit and the increase in the value of shareholders' equity.

Nature of risks

The Bank has grouped the risks considered most measurable into five major categories: market risk, liquidity risk, capital management, credit risk and operational risk.

1 MARKET RISK MANAGEMENT

Market risk is the risk of financial loss due to movements in interest rates and foreign exchange rates, as well as bond and equity prices for balance sheet and off-balance sheet financial instruments.

The Bank establishes policies and ceilings to enable it to oversee and limit exposure to market risks arising from its trading and asset and liability management activities. Detailed reports on risk and monitoring of the limits are produced daily.

The Bank has initiated the implementation of a market risk management and follow-up structure that includes the use of VAR (value at risk) methodology for all of its treasury portfolios.

STRUCTURAL RISK MANAGEMENT

Structural risk is the potential negative impact of interest rate movements on the Bank's results and economic value.

Management of interest rate risk requires rigorous monitoring of four distinct portfolio groups:

- Banking activities, which are affected by customer choices, product availability and term dependent pricing policies;
- Investment activities, comprised of marketable securities and institutional funding composed of primary and secondary liquidity portfolios, as well as an investment portfolio;
- Securities trading portfolios, that are marked-to-market on a daily basis in line with rate movements;
- Specific and general hedging transactions that help the Bank control overall interest rate risk within stringent internal limits.

Both the dynamic management and disciplined control of structural risk contribute to maintaining the Bank's profitability and to preserving common shareholders' equity. The objective of bank portfolio management (other than trading) is to achieve an equilibrium between the increase in interest income and the reduction of the negative impact of interest rate movements. To attain this objective, the risk profile of the portfolio is adjusted by means of interest rate swaps and other derivative instruments, taking into account the projected yield curve of interest rate variations and the current level of risk assumed.

Structural risk is managed by the Asset and Liability Management Committee in accordance with relative ceilings of economic value and interest rate risk. Risk ceilings are calculated based on immediate and sustained parallel movements of 100 basis points of rates for all maturities. Economic value risk measures the net negative impact on the present value of balance sheet and off-balance sheet assets and liabilities. Interest income risk measures the negative impact on net interest income from interest rate movements over the next twelve months. Portfolio positions are reviewed weekly by the Asset and Liability Management Committee, which is in charge of establishing the Bank's positioning with regard to anticipated interest rate movements and recommending hedging of all undesirable or unforeseen interest rate risk.

Board of Directors
Ensures that the Bank has an effective strategic management process that takes risks into account

Human Resources and Corporate Governance Committee
Establishes orientation and training programs for Board members • Evaluates the efficiency with which the Board fulfils its obligations • Establishes attributions and powers of Board committees • Ensures that the compensation plan is compatible with the attainment of objectives and prudent management of activities and risks • Develops a continuity plan for senior management

Risk Management Committee
Ensures that the Bank has an adequate risk management process that covers identification, evaluation and management of risks and the formulation of adequate policies pertaining to market risk, liquidity management, capital management, credit risk and operational risks • Approves rules of conduct and behaviour that take risks into account

Audit Committee
Ensures that the Bank has a control system that fosters adequate management of activities and risks. Ensures that Management and the Board have pertinent, precise and complete information and that the Bank operates in compliance with regulatory provisions

Structural risk management ensues from a weekly spread report. The Bank's interest rate gap position at October 31, 2002 appears in Note 21 of the Consolidated Financial Statements. The net sensitivity gap for the next twelve months is $1.3 billion, or 7.0% of total consolidated assets. To ensure sound management of structural rate risk, management also conducts simulation analysis of the variation in net income and common shareholders' equity based on a repricing spread report and various interest rate scenarios over a 24-month period. One of the main simulation exercises consists of subjecting the Bank's balance sheet to a sudden sustained 1% increase in interest rates. For example, at October 31, 2002, for all portfolios, this 1% rate increase would have triggered an increase of $17.8 million in net income before taxes over the next 12 months and would have a negligible impact on the value of common shareholders' equity.

These results reflect management's efforts to take advantage of short-term and long-term interest rate movements, while maintaining the sensitivity to these fluctuations well within the limits set by the Board.

FOREIGN EXCHANGE RISK MANAGEMENT

Foreign exchange risk is linked to the possible negative impact of exchange rate variations on the Bank's results and economic value.

The Bank's foreign exchange position is attributable to products and services that the Bank offers its clients in currencies other than Canadian dollars. Foreign exchange positions may also result from arbitrage activities. Risk control therefore implies that non-covered positions be maintained and managed to take advantage of short-term market fluctuations, hence the setting of global limits, reviewed on an annual basis, specifying the maximum risk the Bank is ready to assume, considering its activities. The Value at Risk (VAR) measure is among the controls implemented by the Bank.

2 LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk of loss if the Bank does not have sufficient cash resources, when required, to meet all its cash flow obligations, whether for balance sheet or off-balance sheet instruments.

Liquidity management provides the Bank and its subsidiaries with the assurance that sufficient funds will be available to meet its commitments. Efficient liquidity management is essential to maintaining market confidence and protecting the Bank's capital. It is an integral part of asset and liability management. The Bank monitors cash resources daily and applies a prudent liquidity management policy that enables it to meet its cash requirements at all times. It pays particular attention to deposit and loan maturities, along with funding availability and demand, while abiding by the legislative imperatives governing it and its subsidiaries.

The Bank strives to maintain a stable volume of base deposits originating from its retail and deposit brokerage clientele, along with the diversification of financing sources (by client, deposit type, market and maturity dates) by means of numerous controls and limits. The use of capital markets, either through the issuance of capital stock or for short-term debt instruments, is a component of financing. In addition, the Bank has taken steps to further diversify its financing sources by undertaking financing operations on the European market. Securitization of assets offers an additional source of financing through the sale of assets.

Moreover, the Bank constantly monitors its operating requirements. In particular, it evaluates and anticipates its commitments, and ensures that a minimum amount of quality liquid assets are immediately available to respond to any eventuality. Scenario-based contingency plans are put in place to provide measures that enable the Bank to fulfil its obligations in the event of a high demand for liquid assets.

3 CAPITAL MANAGEMENT RISK

Capital management risk is the risk of the possible negative impact if the Bank cannot maintain an optimal level of capital to support its activities.

The capital of the Bank is comprised of common shareholders' equity, retained earnings, preferred shares, subordinated debentures and a non-controlling interest in a subsidiary. The Bank's capital represents an essential factor in assessing the Bank's stability and security in relation to the risks associated with its activities. Capital management contributes to the Bank's profitability, as capital is allocated to key sectors

for which defined profitability objectives and criteria have been established. The Bank's aim is to maintain an optimal level of capital to support its activities while generating an attractive and competitive return for its shareholders, in relation to industry standards and its specific risk profile. The Bank's policy is to maintain its statutory capital ratios at a level comparable to that of the industry, consistent with regulatory requirements as defined by the Office of the Superintendent of Financial Institutions Canada.

4 CREDIT RISK MANAGEMENT

Credit risk is the risk of a financial loss occurring because of the inability or refusal of a counterparty to fully honour the contractual or financial obligations of a balance sheet or off-balance sheet financial instrument.

Credit risk management is independent of operations, thus protecting the independence and integrity of risk evaluation. The Internal Credit Committee is responsible for the operational supervision of overall credit risk management. A credit risk management report is presented on a quarterly basis to the Board's Risk Management Committee.

The credit risk policies adopted by the Bank provide for appropriate risk assessment and the setting of lending rates in consequence. These policies cover the approval of credit applications by the line of authority concerned, attributing risk ratings, managing of impaired loans, establishing of general and specific provisions, and pricing based on risk. During the past fiscal year, credit limit rules were modified and, at October 31, 2002, 17 borrowers had loan commitments (granted prior to the limit reduction in the credit policy) greater than \$20 million, but none exceeded \$40 million. More restrictive sublimits apply to some economic sectors. Commitment and sector ceilings have also been established.

The authorization process for counterparties and loans is highly centralized. The Bank uses state-of-the-art software systems to support the decision-making process with regard to applications for personal consumer credit, credit cards and residential mortgage loans.

The Bank ensures a rigorous and systematic follow-up of its loan portfolio both in terms of quality and quantity by applying different mechanisms and policies; this includes systematically reviewing various categories of files, reviewing risk rating updating systems and analysing pricing. Each month, management reviews impaired loans and follows up on loans where payment is past due by 90 days or more. As well, the collection process is centralized and is based on specialized expertise.

5 OPERATIONAL RISK MANAGEMENT

Operational risk results from insufficiency or failure attributable to procedures, personnel, internal systems or external events.

The operational risk management policy adopted by the Board of Directors in 2002 describes the operational risk management framework and define the roles and responsibilities of various stakeholders. Specifically, managers are responsible for daily management of operational risk, whereas the operational risk management department strives to support operational risk management: it develops appropriate policies, gathers data on operational losses, assists managers in identifying operational risks, evaluates the frequency and potential impact of these risks and prepares progress reports for Management, the Board of Directors and regulatory bodies.

To this effect, the following policies have been adopted: the outsourcing risk management policy, the policy on information security management, the policy on protection of personal information, the policy on recycling of the proceeds of crime and the financing of terrorism activities, and the policy on professional liability risk management.

statisticalreview

Consolidated balance sheet

as at October 31
(in thousands of dollars)

	2002	2001	2000	1999	1998	Average annual growth 02/98
ASSETS						
Cash resources						
Cash and deposits with Bank of Canada	$ 166,598	$ 77,098	$ 63,944	$ 79,320	$ 63,951	27 %
Deposits with other financial institutions	267,100	98,812	187,090	33,768	262,133	—
Cheques and other items in transit, net	19,973	8,437	29,177	—	50,461	(21)
	453,671	184,347	280,211	113,088	376,545	5
Securities						
Issued or guaranteed by Canada	1,584,820	1,432,946	822,894	996,776	990,883	12
Issued or guaranteed by provinces and municipal corporations	1,114,428	650,685	428,946	802,627	411,194	28
Other securities	350,809	237,630	136,620	136,272	54,537	59
	3,050,057	2,321,261	1,388,460	1,935,675	1,456,614	20
Loans						
Personal loans	3,865,455	3,532,655	2,863,333	2,418,210	2,154,087	16
Residential and commercial mortgages	7,601,671	7,880,870	6,977,955	6,164,441	6,247,017	5
Commercial loans and other	1,872,901	2,159,752	1,783,173	1,466,230	1,157,797	13
Assets purchased under reverse repurchase agreements	869,830	649,671	638,400	917,710	1,380,479	(11)
	14,209,857	14,222,948	12,262,861	10,966,591	10,939,380	7
Allowance for loan losses	(217,881)	(133,512)	(115,661)	(106,019)	(123,661)	15
	13,991,976	14,089,436	12,147,200	10,860,572	10,815,719	7
Other						
Customers' liability under acceptances	332,077	336,292	244,586	116,248	111,180	31
Capital assets	160,597	178,766	164,914	157,104	146,447	2
Other assets	607,238	585,722	515,947	461,127	396,694	11
	1,099,912	1,100,780	925,447	734,479	654,321	14
	$ 18,595,616	$ 17,695,824	$ 14,741,318	$ 13,643,814	$ 13,303,199	9 %
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits						
Individuals	$ 12,007,957	$ 11,519,743	$ 10,202,957	$ 8,021,908	$ 7,834,960	11 %
Business and other	2,960,317	2,998,294	2,036,094	2,447,629	2,201,548	8
	14,968,274	14,518,037	12,239,051	10,469,537	10,036,508	11
Other						
Cheques and other items in transit, net	—	—	—	7,587	—	—
Obligations related to assets sold short or under repurchase agreements	1,308,882	877,158	619,264	1,698,612	1,982,546	(10)
Acceptances	332,077	336,292	244,586	116,248	111,180	31
Other liabilities	716,907	741,921	629,412	453,841	398,951	16
	2,357,866	1,955,371	1,493,262	2,276,288	2,492,677	(1)
Subordinated debentures	400,000	400,000	346,833	284,600	184,600	21
Non-controlling interest in a subsidiary	47,106	42,683	—	—	—	100
Shareholders' equity						
Capital stock						
Preferred shares	200,400	160,400	160,400	160,400	160,400	6
Common shares	246,230	234,240	167,042	167,042	166,811	10
Retained earnings	375,740	385,093	334,730	285,947	262,203	9
	822,370	779,733	662,172	613,389	589,414	9
	$ 18,595,616	$ 17,695,824	$ 14,741,318	$ 13,643,814	$ 13,303,199	9 %

Consolidated statement of income

for the years ended October 31
(in thousands of dollars, except per share amounts)

	2002	2001	2000	1999	1998	Average annual variation 02/98
Loans	$ 887,268	$ 1,005,061	$ 835,759	$ 696,732	$ 713,074	6 %
Securities	73,341	66,284	70,181	70,673	42,153	15
Deposits with other financial institutions	5,022	8,243	5,712	7,414	6,988	(8)
Interest income	965,631	1,079,588	911,652	774,819	762,215	6
Deposits and other liabilities	591,905	680,035	605,281	521,736	471,653	6
Subordinated debentures	27,750	34,395	27,475	22,546	21,715	6
Interest expense	619,655	714,430	632,756	544,282	493,368	6
Net interest income	345,976	365,158	278,896	230,537	268,847	7
Provision for credit losses	111,000	35,000	25,000	18,700	24,000	47
	234,976	330,158	253,896	211,837	244,847	(1)
Other income	254,443	265,641	211,777	212,734	178,825	9
	489,419	595,799	465,673	424,571	423,672	4
Salaries and employee benefits	198,694	212,878	177,147	162,935	154,350	7
Premises and technology	120,140	115,829	96,641	90,319	87,452	8
Other	88,499	116,736	79,539	91,247	83,350	2
Non-interest expenses	407,333	445,443	353,327	344,501	325,152	6
Income before income taxes and non-controlling interest in a subsidiary	82,086	150,356	112,346	80,070	98,520	(4)
Income taxes	32,424	57,610	30,686	24,400	30,249	2
Income before non-controlling interest in a subsidiary	49,662	92,746	81,660	55,670	68,271	(8)
Non-controlling interest in net income of a subsidiary	5,318	2,041	—	—	—	100
Net income	$ 44,344	$ 90,705	$ 81,660	$ 55,670	$ 68,271	(10) %
Dividends on preferred shares and related taxes	$ 15,058	$ 13,530	$ 13,932	$ 13,386	$ 13,661	2 %
Net income available to common shareholders	$ 29,286	$ 77,175	$ 67,728	$ 42,284	$ 54,610	(14) %
Dividends on common shares	$ 26,854	$ 24,098	$ 18,945	$ 18,540	$ 18,048	10 %
Average number of common shares outstanding (in thousands)	23,095	22,710	20,154	20,151	19,322	5 %
Average number of common shares outstanding after dilution (in thousands)	23,288	22,896	20,224	20,303	19,515	5 %
Per common share:						
Net income						
basic	$ 1.27	$ 3.40	$ 3.36	$ 2.10	$ 2.83	(18) %
diluted	$ 1.26	$ 3.37	$ 3.35	$ 2.08	$ 2.80	(18) %
Dividends	$ 1.16	$ 1.06	$ 0.94	$ 0.92	$ 0.92	6 %
Book value	$ 26.57	$ 27.08	$ 24.90	$ 22.48	$ 21.30	6 %
Return on common shareholders' equity	4.8 %	13.1 %	14.4 %	9.6 %	12.9 %	

(as a percentage of average assets)

	2002	2001	2000	1999	1998	Average annual variation 02/98
Net interest income	1.86 %	2.13 %	1.94 %	1.79 %	2.22 %	
Provision for credit losses	(0.60)	(0.20)	(0.17)	(0.14)	(0.20)	
Other income	1.37	1.55	1.47	1.65	1.48	
Non-interest expenses	(2.19)	(2.59)	(2.46)	(2.67)	(2.69)	
Income taxes	(0.17)	(0.35)	(0.21)	(0.20)	(0.25)	
Non-controlling interest in net income of a subsidiary	(0.03)	(0.01)	—	—	—	
Net income	0.24	0.53	0.57	0.43	0.56	
Dividends on preferred shares	(0.08)	(0.08)	(0.10)	(0.10)	(0.11)	
Net income available to common shareholders	0.16 %	0.45 %	0.47 %	0.33 %	0.45 %	
Average assets (in millions of dollars)	$ 18,570.2	$ 17,176.1	$ 14,376.9	$ 12,913.6	$ 12,090.8	11 %
Number of full-time equivalent employees	3,730	3,884	3,481	3,236	3,372	3 %
Number of branches	214	230	204	203	204	1 %
Number of automated banking machines	351	360	315	326	323	2 %

Quarterly highlights

(in thousands of dollars, except per share amounts)

	2002				2001			
	Quarters ended				Quarters ended			
	Oct. 31	July 31	April 30	Jan. 31	Oct. 31	July 31	April 30	Jan. 31
Interest income	$ 237,913	$ 250,373	$ 236,244	$ 241,101	$ 262,122	$ 271,983	$ 265,103	$ 280,380
Interest expense	155,792	160,850	149,425	153,588	170,775	178,302	176,905	188,448
Net interest income	82,121	89,523	86,819	87,513	91,347	93,681	88,198	91,932
Provision for credit losses	11,000	10,000	80,000	10,000	9,500	9,500	8,000	8,000
	71,121	79,523	6,819	77,513	81,847	84,181	80,198	83,932
Other income	53,172	60,662	66,800	73,809	66,336	72,400	58,702	68,203
Non-interest expenses	96,171	101,682	101,637	107,843	111,100	125,841	104,584	103,918
Income (loss) before income taxes and non-controlling interest in a subsidiary	28,122	38,503	(28,018)	43,479	37,083	30,740	34,316	48,217
Income taxes (recovery)	11,108	15,209	(11,069)	17,176	12,168	7,527	12,297	25,618
Income (loss) before non-controlling interest	17,014	23,294	(16,949)	26,303	24,915	23,213	22,019	22,599
Non-controlling interest in net income of a subsidiary	1,146	1,311	1,422	1,439	1,377	664	—	—
Net income (loss)	$ 15,868	$ 21,983	$ (18,371)	$ 24,864	$ 23,538	$ 22,549	$ 22,019	$ 22,599
(as a percentage of average assets)								
Net interest income	1.76 %	1.86 %	1.88 %	1.95 %	2.04 %	2.13 %	2.14 %	2.20 %
Provision for credit losses	0.24 %	0.21 %	1.74 %	0.22 %	0.21 %	0.22 %	0.19 %	0.19 %
Other income	1.14 %	1.26 %	1.45 %	1.65 %	1.48 %	1.65 %	1.42 %	1.63 %
Non-interest expenses	2.06 %	2.11 %	2.21 %	2.41 %	2.48 %	2.86 %	2.53 %	2.49 %
Net income (loss)	0.34 %	0.46 %	(0.40) %	0.55 %	0.53 %	0.51 %	0.53 %	0.54 %
Net income (loss) available to common shareholders	0.26 %	0.38 %	(0.48) %	0.47 %	0.45 %	0.44 %	0.46 %	0.46 %
Average assets (in millions of dollars)	$18,504.9	$19,114.5	$18,897.1	$17,775.0	$17,738.5	$17,449.9	$16,922.0	$16,585.7
Return on common shareholders' equity	7.8 %	12.0 %	(14.4) %	13.5 %	12.9 %	12.7 %	13.3 %	13.3 %
Per common share:								
Average number of common shares outstanding (in thousands)	23,376	23,132	22,969	22,898	22,817	22,698	22,667	22,656
Average diluted number of common shares outstanding (in thousands)	23,439	23,289	22,969	23,155	23,027	22,980	22,917	22,871
Net income (loss) – basic	$ 0.52	$ 0.79	$ (0.95)	$ 0.91	$ 0.88	$ 0.85	$ 0.83	$ 0.84
Net income (loss) – diluted	$ 0.52	$ 0.78	$ (0.95)	$ 0.90	$ 0.87	$ 0.84	$ 0.82	$ 0.84
Dividends	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.27	$ 0.27	$ 0.27	$ 0.25
Book value	$ 26.57	$ 26.36	$ 25.91	$ 27.16	$ 27.08	$ 26.53	$ 25.98	$ 25.43
Dividends								
Preferred shares and related taxes	$ 3,786	$ 3,766	$ 3,540	$ 3,966	$ 3,533	$ 3,350	$ 3,168	$ 3,479
Common shares	$ 6,788	$ 6,768	$ 6,646	$ 6,652	$ 6,174	$ 6,136	$ 6,122	$ 5,666
Share price – Close	$ 28.08	$ 28.80	$ 31.30	$ 36.14	$ 27.41	$ 31.80	$ 27.40	$ 28.80
(in millions of dollars)								
Total assets (end of period)	$18,595.6	$19,179.0	$19,093.4	$18,013.0	$17,695.8	$17,264.9	$16,665.2	$16,777.7
Risk-weighted assets	$ 9,276.5	$ 9,384.6	$ 9,637.8	$ 9,569.8	$ 9,444.3	$ 9,257.8	$ 9,218.2	$ 9,172.6
Tier I capital	$ 820.3	$ 811.8	$ 788.9	$ 817.8	$ 763.9	$ 746.2	$ 689.3	$ 675.0
Total capital	$ 1,249.4	$ 1,244.2	$ 1,215.9	$ 1,243.0	$ 1,170.2	$ 1,127.1	$ 1,040.4	$ 1,020.9
Capital ratios								
Tier I	8.8 %	8.7 %	8.2 %	8.6 %	8.1 %	8.1 %	7.5 %	7.4 %
Total capital	13.5 %	13.3 %	12.6 %	13.0 %	12.4 %	12.2 %	11.3 %	11.1 %
Financial leverage	15.0 x	15.5 x	15.8 x	14.6 x	15.2 x	15.4 x	16.1 x	16.5 x

consolidated financial statements

Management's responsibility for financial information

The consolidated financial statements of Laurentian Bank of Canada were prepared by management, which is responsible for the integrity and fairness of the financial information presented. The financial statements were prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Superintendent of Financial Institutions of Canada. The financial statements reflect amounts which must, of necessity, be based on the best estimates and judgement of management with appropriate consideration as to materiality. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

In discharging its responsibility for the fairness and integrity of the financial information and the supporting accounting systems:

- Management maintains the necessary internal control systems designed to provide assurance that transactions are properly authorized, assets are safeguarded and proper accounting records are held. The controls include quality standards in hiring and training of employees, written policies, authorized limits for managers, procedure manuals, a corporate code of conduct and appropriate management information systems.
- The internal control systems are further supported by a compliance function, which ensures that the Bank and its employees comply with regulatory requirements, as well as by an integration function with respect to risk and operating risk management that ensures proper risk control, related documentation and the measurement of the financial impact of risks.
- Internal auditors periodically evaluate various aspects of the Bank's operations and make recommendations to management for improvements in controls.

Every year, the Superintendent of Financial Institutions of Canada makes such examinations and inquiries as deemed necessary to satisfy itself that the Bank is in a sound financial position and that it complies with the provisions of the *Bank Act* as well as the Standards of Sound Business and Financial Practices of the Canada Deposit Insurance Corporation.

Ernst & Young LLP, independent auditors, appointed by the shareholders, examine the Bank's consolidated financial statements and their report follows.

The internal auditors, the external auditors and the Superintendent of Financial Institutions of Canada meet periodically with the Audit Committee, in the presence or absence of management, to discuss all aspects of their duties and matters arising therefrom.

The Board of Directors is responsible for reviewing and approving the financial information included in the financial statements and in the management's discussion and analysis of results of operations and financial condition. It oversees the manner in which management discharges its responsibilities for the presentation and preparation of financial statements, maintenance of appropriate internal controls, risk management as well as assessment of significant transactions and related party transactions through its Audit Committee and its Risk Management Committee. Both committees are composed solely of external directors.

Raymond McManus
President and Chief Executive Officer

Robert Cardinal
Senior Executive Vice-President
and Chief Financial Officer

Montreal, Canada
December 3, 2002

Auditors' report to the shareholders of Laurentian Bank of Canada

We have audited the consolidated balance sheet of Laurentian Bank of Canada as at October 31, 2002 and 2001 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Laurentian Bank of Canada's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Superintendent of Financial Institutions of Canada.

Ernst & Young LLP
Chartered Accountants

Montreal, Canada
December 3, 2002

Consolidated balance sheet

as at October 31
(in thousands of dollars)

	Notes	2002	2001
ASSETS			
Cash resources			
Cash and deposits with Bank of Canada		$ 166,598	$ 77,098
Deposits with other financial institutions			
Interest-bearing		264,972	93,679
Non-interest bearing		2,128	5,133
Cheques and other items in transit, net		19,973	8,437
		453,671	184,347
Securities	3 and 22		
Investment account		2,084,585	1,721,115
Trading account		965,472	600,146
		3,050,057	2,321,261
Loans	4 and 5		
Personal loans		3,865,455	3,532,655
Residential mortgages		6,645,899	6,971,166
Commercial mortgages		955,772	909,704
Commercial loans and other		1,872,901	2,159,752
Assets purchased under reverse repurchase agreements		869,830	649,671
		14,209,857	14,222,948
Allowance for loan losses		(217,881)	(133,512)
		13,991,976	14,089,436
Other			
Customers' liability under acceptances		332,077	336,292
Capital assets	6	160,597	178,766
Goodwill	7	54,029	64,052
Other assets	8	553,209	521,670
		1,099,912	1,100,780
		$ 18,595,616	$ 17,695,824
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	9		
Individuals		$ 12,007,957	$ 11,519,743
Business and other		2,960,317	2,998,294
		14,968,274	14,518,037
Other			
Obligations related to assets sold short		861,020	669,657
Obligations related to assets sold under repurchase agreements	22	447,862	207,501
Acceptances		332,077	336,292
Other liabilities	10	716,907	741,921
		2,357,866	1,955,371
Subordinated debentures	11	400,000	400,000
Non-controlling interest in a subsidiary		47,106	42,683
Shareholders' equity			
Capital stock	12		
Preferred shares		200,400	160,400
Common shares		246,230	234,240
Retained earnings		375,740	385,093
		822,370	779,733
		$ 18,595,616	$ 17,695,824

The accompanying notes are an integral part of the consolidated financial statements.

Jon K. Grant, O.C.
Chairman of the Board

Raymond McManus
President and Chief Executive Officer

Consolidated statement of income

for the years ended October 31
(in thousands of dollars, except per share amounts)

	Notes	2002	2001
Interest income			
Loans		$ 887,268	$ 1,005,061
Securities		73,341	66,284
Deposits with other financial institutions		5,022	8,243
		965,631	1,079,588
Interest expense			
Deposits and other liabilities		591,905	680,035
Subordinated debentures		27,750	34,395
		619,655	714,430
Net interest income		345,976	365,158
Provision for credit losses	4	111,000	35,000
		234,976	330,158
Other income			
Revenues from loans and deposits		112,841	104,812
Revenues from treasury and financial market operations		61,867	48,716
Commissions from brokerage operations		19,201	23,319
Securitization revenues	5	16,129	18,669
Mutual fund revenues		13,884	17,945
Revenues from registered self-directed plans		13,192	14,418
Insurance revenues		5,280	15,441
Gain on dilution resulting from initial public offering of a subsidiary	15	—	12,430
Other		12,049	9,891
		254,443	265,641
		489,419	595,799
Non-interest expenses			
Salaries and employee benefits		198,694	212,878
Premises and technology		120,140	115,829
Other	16	88,499	116,736
		407,333	445,443
Income before income taxes and non-controlling interest in a subsidiary		82,086	150,356
Income taxes	17	32,424	57,610
Income before non-controlling interest in a subsidiary		49,662	92,746
Non-controlling interest in net income of a subsidiary	15	5,318	2,041
Net income	7	$ 44,344	$ 90,705
Preferred share dividends, including applicable income taxes		15,058	13,530
Net income available to common shareholders		$ 29,286	$ 77,175
Average number of common shares (in thousands)		23,095	22,710
Average number of common shares after dilution (in thousands)		23,288	22,896
Net income per common share	7 and 18		
basic		$ 1.27	$ 3.40
diluted		$ 1.26	$ 3.37

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statement of changes in shareholders' equity

for the years ended October 31
(in thousands of dollars, except per share amounts)

	Notes	2002	2001
CAPITAL STOCK	12		
Preferred shares			
Balance at beginning of year		$ 160,400	$ 160,400
Issued during the year		100,000	—
Redeemed during the year		(60,000)	—
Balance at end of year		200,400	160,400
Common shares			
Balance at beginning of year		234,240	167,042
Issued during the year		11,990	67,198
Balance at end of year		246,230	234,240
RETAINED EARNINGS			
Previous balance		385,093	334,730
Impact of adopting the new accounting policy regarding goodwill, net of applicable income taxes	1 and 7	(9,670)	—
Restated balance		375,423	334,730
Net income		44,344	90,705
Dividends			
Preferred shares, including applicable income taxes		(15,058)	(13,530)
Common shares		(26,854)	(24,098)
Preferred share issue costs, net of income taxes		(2,115)	—
Common share issue costs, net of income taxes		—	(2,714)
Balance at end of year		375,740	385,093
TOTAL SHAREHOLDERS' EQUITY		$ 822,370	$ 779,733

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

for the years ended October 31
(in thousands of dollars)

	2002	2001
Cash flows relating to operating activities		
Net income	$ 44,344	$ 90,705
Adjustments to determine net cash flows relating to operating activities:		
Provision for credit losses	111,000	35,000
Gains on securitization operations	(9,818)	(3,350)
Gain on dilution resulting from initial public offering of a subsidiary	—	(12,430)
Gain related to reinsurance of a block of credit insurance premiums	—	(10,940)
Net gains on sale of securities held for investment	(8,507)	(9,527)
Future income tax expense	10,849	34,432
Depreciation and amortization	40,075	43,092
Change in trading securities	(365,326)	(175,383)
Change in accrued interest receivable	(17,434)	5,284
Decrease (increase) in unrealized gains and amounts receivable on derivative instruments	(5,963)	(12,281)
Change in accrued interest payable	3,037	67,598
Increase (decrease) in unrealized losses and amounts payable on derivative instruments	27,142	(14,882)
Other, net	(54,350)	(4,959)
	(224,951)	32,359
Cash flows relating to financing activities		
Net change in deposits	352,235	1,106,083
Net change in obligations related to assets sold short	191,363	111,175
Net change in obligations related to assets sold under repurchase agreements	240,361	146,719
Issuance of subordinated debentures	—	150,000
Redemption of subordinated debentures	—	(96,833)
Issuance of preferred shares, net of issue costs	97,885	—
Redemption of preferred shares	(60,000)	—
Issuance of common shares, net of issue costs	11,990	64,484
Issuance of common shares by a subsidiary, net of issue costs	—	53,072
Dividends, including applicable income taxes	(41,912)	(37,628)
	791,922	1,497,072
Cash flows relating to investing activities		
Acquisition of net assets and a business, net of cash and cash equivalents	30,882	(652,052)
Net change in interest-bearing deposits with other financial institutions	(171,293)	80,978
Net change in securities held for investment	(328,461)	(725,744)
Net change in loans	(456,403)	(697,235)
Net change in assets purchased under reverse repurchase agreements	(220,159)	(11,271)
Proceeds from mortgage loan securitizations	697,555	500,781
Acquisitions of capital assets	(33,595)	(39,798)
Proceeds from disposal of capital assets	12,534	25
	(468,940)	(1,544,316)
Net change in cash and cash equivalents	98,031	(14,885)
Cash and cash equivalents at beginning of year	90,668	105,553
Cash and cash equivalents at end of year	$ 188,699	$ 90,668
Cash and cash equivalents are detailed as follows:		
Cash and deposits with Bank of Canada	$ 166,598	$ 77,098
Non-interest bearing deposits with other financial institutions	2,128	5,133
Cheques and other items in transit, net	19,973	8,437
	$ 188,699	$ 90,668
Supplemental disclosure relating to cash flows:		
Interest paid during the year	$ 602,624	$ 618,425
Income taxes paid during the year	$ 30,163	$ 13,866

The accompanying notes are an integral part of the consolidated financial statements.

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financial statements

October 31, 2002 and 2001
(All tabular amounts are in thousands of dollars, unless otherwise indicated.)

1. Summary of significant accounting policies

Pursuant to the *Bank Act*, the consolidated financial statements of Laurentian Bank of Canada (the "Bank") have been prepared by management in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Superintendent of Financial Institutions of Canada. The significant accounting policies followed in the preparation of these consolidated financial statements are summarized below.

Use of estimates in the preparation of financial statements

The preparation of the consolidated financial statements of the Bank requires management to make estimates and assumptions, mainly concerning the valuation of items, which affect reported amounts of assets, liabilities, net income and related disclosures. Actual results could differ from those estimates.

Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and all of its subsidiaries after elimination of intercompany balances and transactions.

When the Bank effectively controls a subsidiary but does not hold all common and preferred shares, the non-controlling interest in the net book value of the subsidiary is presented separately from the shareholders' equity on the Bank's consolidated balance sheet. The non-controlling interest in the subsidiary's net income is presented net of income taxes as a separate item on the consolidated statement of income.

The consolidated financial statements include an interest in a joint venture which is recognized using the proportionate consolidation method. Under this approach, the Bank's prorated share of the assets, liabilities, revenues and expenses are consolidated.

Securities

Investment account
Securities purchased with the original intention to hold them to maturity or until market conditions render alternative investments more attractive are included in the investment account. Fixed-term securities are recorded at amortized cost. Other securities are recorded at cost. Gains and losses on disposal of securities and write-downs to reflect other than temporary impairments in value are included in other income. Interest income earned, amortization of premiums and discounts as well as dividends received are included in interest income.

Loan substitute securities are included in the investment account. These securities are customer financings that have been structured as after-tax securities rather than conventional loans in order to provide the issuers with a borrowing rate advantage. These securities are recorded on the same basis as loans.

Trading account
Securities purchased for resale over a short period of time are included in the trading account and are recorded at their estimated current market value. Obligations related to assets sold short are reported as liabilities and are stated at their estimated current market value. Realized and unrealized gains and losses on these securities are included in other income. Interest income earned and dividends received are included in interest income.

Loans

Loans are stated net of the allowance for loan losses and any unearned interest.

Loans are classified as impaired when, in management's opinion, there is a reasonable doubt as to the timely collectibility of the principal or interest. When payment of principal or interest is 90 days past due, the loans are classified as impaired, unless they are well-secured or in the process of recovery. All loans which are 180 days past due are classified as impaired except when they are guaranteed or insured by a Canadian government (federal or provincial) or a Canadian government agency; such loans are classified as impaired if the loan is in arrears for 365 days.

When loans are classified as impaired, the recognition of the interest due ceases. The book values of these loans are then brought back to their estimated realizable value by totally or partially writing off the loan and/or establishing an allowance for loan losses.

Subsequent recoveries of interest on impaired loans are recognized in income only if there is no specific allowance and if, in management's opinion, there is no reasonable doubt as to the ultimate collectibility of the total principal.

The property rights of assets acquired in settlement of a loan and intended for resale are also included in impaired loans at the lower of the loan balance and its net realizable value.

1. Summary of significant accounting policies (continued)

An impaired loan cannot return to an accrual status unless all principal and interest payments are up-to-date and management has no reasonable doubt as to the recovery of the loan.

Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal and interest, and payments are not 90 days past due.

Commissions and fees related to loans received as interest or related to changes in credit terms are generally recorded in interest income over the term of these loans.

Allowance for losses

The Bank maintains accounts for the allowance for losses at an amount deemed adequate to absorb probable losses in its portfolios. Allowances are mainly related to loans, but may also apply to other assets.

The allowance for loan losses is increased by the provision for credit losses charged to income and reduced by write-offs net of recoveries. Loans are written off when all possible restructuring or recovery activities have been completed and it is unlikely that other amounts can be recovered.

Specific allowances
Specific allowances are established on a loan-by-loan basis to absorb losses on all impaired accounts which have been identified as a result of regular review of the commercial and mortgage loans portfolio. These provisions are established by estimating the amounts recoverable in relation to the loan amounts; estimated future cash flows are discounted at the effective interest rate inherent in the loan. When these amounts cannot be reasonably estimated, the fair value of the underlying collateral or the observable market price of the loans are used to establish the allowances. For impaired personal loans, other than credit card balances and investment loans, an allowance is established based on the write-off experience on such loans in recent years. For credit card balances, no allowance is established; however, when no payment has been received for a period of 180 days, outstanding balances are written off. For impaired investment loans, a specific allowance is established on a loan-by-loan basis at the time of the regular review of the portfolio.

General allowances
During the year, the Bank revised its valuation model for general allowances to ensure its compliance with the guideline entitled "General Allowances for Credit Risk" issued by the Superintendent of Financial Institutions of Canada.

An allocated general allowance, based on the historical loss experience of the previous ten years and an economic cycle reference factor, is now computed for each pool of loans with common risk characteristics. This method allows the specific allocation of the general allowance to the identified pools of loans and the determination of an unallocated general allowance.

The allocated general allowance reflects the best estimate of potential losses, related to the deterioration of credit quality, within the portion of the portfolio that has not yet been specifically identified as impaired.

The unallocated general allowance reflects the assessment of potential losses which are not identified by the specific allowances and the allocated general allowance. This assessment includes consideration of regulatory requirements, economic and business conditions as well as changes to portfolio content.

Acceptances

Acceptances are short-term negotiable instruments issued by the Bank's customers to third parties and guaranteed by the Bank. The potential liability under acceptances is reported as a liability on the balance sheet. The recourse against the customer in the case of a call on these commitments is reported as an asset of the same amount. Commissions earned are reported in other income.

Assets purchased under reverse repurchase agreements and assets sold under repurchase agreements

The Bank enters into short-term purchases of securities under agreements to resell as well as short-term sales of securities under agreements to repurchase at predetermined prices and dates. These agreements are treated as collateralized lending and borrowing transactions and are carried on the balance sheet at the amounts at which the securities were initially acquired or sold. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are reported as interest income and interest expense, respectively.

1. Summary of significant accounting policies (continued)

Capital assets

Land is carried at cost. Other capital assets are recorded at cost less accumulated depreciation and are depreciated over their estimated useful lives based on the following methods and rates:

	Methods	Rates
Premises	Declining balance	5%
Leasehold improvements	Straight-line	Term of the lease plus initial renewal option
Equipment and furniture	Declining balance	20%
Computer equipment and software	Straight-line or declining balance	10% to 30%

Gains and losses resulting from the sale of capital assets are recorded under other income.

Goodwill and other intangible assets

On November 1, 2001, the Bank adopted, on a prospective basis, the new standards of the Canadian Institute of Chartered Accountants (the "CICA") with respect to goodwill and other intangible assets. Under these standards, goodwill and intangible assets determined to have an indefinite useful life are no longer amortized, but instead are tested for impairment, at least annually, based on their fair values. The impairment test initially compares the fair value of the reporting unit to which the goodwill relates to its carrying amount. When potential impairment is identified, the fair value of goodwill is compared to its carrying amount. Impairment identified in the transitional test is charged to opening retained earnings at the initial date of application. Subsequent impairment must be charged to income during the period in which the loss is incurred.

The Bank mainly uses the discounted cash flows method to determine the fair value of its reporting units. Following the adoption of these recommendations, impairment losses of $9,932,000 ($9,670,000 net of related income taxes) were written off in relation to operating units of the Commercial financial services and Wealth Management and Brokerage sectors (see Note 7).

Previously, goodwill was subject to an evaluation in order to identify a permanent impairment which involved comparing the net carrying amount to the undiscounted value of estimated future cash flows.

Loan securitization

Since June 1, 2001, the Bank has applied the CICA's Accounting Guideline no. 12 with respect to the transfer of receivables.

Based on securitization arrangements, the Bank transfers pools of mortgages to special-purpose vehicles or trusts which issue securities to investors. These transfers are accounted for as sales when the Bank is deemed to have surrendered control over these assets.

When the transfer is considered a sale, the Bank derecognizes all assets sold, recognizes at fair value the assets received and the liabilities assumed in the sale and records the gain or loss on the sale in other income.

In connection with these transactions, the Bank retains, in some instances, interests in securitized receivables such as cash reserve accounts, one or more subordinated tranches, servicing rights and excess interest spread. The gain or loss depends partly on the previous carrying value of the loans that are included in the transfer, allocated between the assets sold and the interests retained based on their respective fair value at the time of the transfer. To calculate fair values, the Bank estimates the discounted value of future cash flows. These calculations are based on management's best estimates with respect to key assumptions – credit losses, rate of prepayment, interest-rate curve and risk-adjusted discount rate.

Cash reserve accounts related to these transactions are initially recorded at cost and presented under other assets. They are subsequently re-evaluated to identify permanent impairments in value.

For certain transactions, the Bank retains an interest, until mortgage-backed securities mature, in the excess interest spread initially recorded at cost and presented in other assets. This excess interest spread, which affects the determination of gains or losses on the transfer date, corresponds to the interest collected from mortgage holders less interest paid to securities' holders. As mortgage payments are received, this excess decreases and the resulting yield is recognized to interest income. Any permanent impairment in value is immediately charged to income.

1. Summary of significant accounting policies (continued)

The subordinated tranches are also recorded at cost and presented with securities in the investment account.

The Bank generally transfers receivables on a full servicing basis. On the transfer date, a servicing liability is recognized at fair value and presented in other liabilities.

In addition, for certain securitization transactions, the Bank guarantees the return to securities' holders. This obligation is initially recorded at fair value and re-evaluated periodically, charging any changes in the fair value to income.

Transactions completed prior to June 1, 2001 are recorded in accordance with the instructions set forth in Abstract no. 9, "Transfers of Receivables," issued by the CICA's Emerging Issues Committee and have not been restated. Gains related to transactions completed according to the former standards are amortized to income when the significant risks and rewards of ownership have been transferred provided there is no possible recourse against the Bank on the transaction. To the extent that there was a recourse against the Bank on the transaction, any gain on sale was deferred until the cash was collected and there was no recourse left. Losses on these transactions, if any, were recognized immediately.

Employee future benefits

Pension plans
The Bank maintains defined benefit pension plans for its employees. One of these plans also includes a defined contribution portion. Funding is provided by both the Bank and the members of the plans.

Under the defined benefit plans, retired employees are eligible for benefits based on the length of service and the average salary at retirement. An actuarial valuation is performed periodically to determine the present value of accrued pension obligations based on projected benefits and management's best estimates. The obligation for accrued benefits is valued using market interest rates. Pension plan assets are valued according to their fair market value. For these plans, the pension expense consists of: a) the cost for the current year's service, b) interest expense on the accrued benefit obligation, c) expected return on plan assets, d) amortization of the transitional obligation, the cost for service in previous years and the actuarial gains or losses, e) gains or losses arising from special events, and f) change in the valuation allowance.

The cost for past service resulting from changes to the defined benefit plans is amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the plans. Actuarial gains or losses are amortized when, at the beginning of the year, the unamortized balance of the gain or loss exceeds 10% of the accrued benefit obligation or the market value of plan assets, whichever amount is greater. This excess is amortized on a straight-line basis over the expected average remaining service life of the groups covered by the plans. The transitional obligation resulting from the application of the standard with respect to employee future benefits, since November 1, 2000, is amortized on a straight-line basis over the average remaining service period of active employees who should normally receive benefits under these plans, varying from 10 to 20 years.

On January 1, 2001, the Bank introduced a defined contribution portion to one of its plans for certain categories of employees. Plan members who were active at this date could elect to remain in the defined benefit portion or participate in the defined contribution portion for future years of participation. Members who join the plan after January 1, 2001 are required to participate in the defined contribution portion. The expense for this portion corresponds to the contributions the Bank is required to make during the year.

Other plans
The Bank also provides certain healthcare and life insurance benefits for its employees upon retirement. The costs related to these benefits are accumulated during the employees' active career according to accounting policies similar to those applied to defined benefit plans.

Derivative financial instruments

The Bank uses derivatives to manage its exposure to interest rates and currency risks, to serve the needs of customers and earn trading income. The most frequently used derivative products are interest rate and foreign exchange swaps, foreign currency and interest rate futures, and options.

Derivative products are valued at prevailing market rates when used in trading activities or to meet customers' needs. Realized and unrealized gains and losses are included in other income. When derivative products are used to manage the Bank's own exposure, the realized gains and losses are deferred and amortized to net interest income over the life of the hedged items.

Income taxes

The Bank uses the liability method of tax allocation and reports, in other assets, the future income tax assets resulting from loss carryforwards and temporary differences between the carrying amounts and the tax basis of assets and liabilities, in accordance with tax laws and rates enacted or substantively enacted on the date the differences reverse.

1. Summary of significant accounting policies (continued)

Statement of cash flows

Cash and cash equivalents comprise cash and deposits with Bank of Canada, non-interest bearing deposits with other financial institutions and net cheques and other items in transit, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Net income per common share

The Bank calculates its basic net income per common share by dividing net income for the year, after deduction of preferred share dividends, including applicable income taxes, by the weighted average number of common shares outstanding for the year.

Diluted net income per common share is calculated assuming that the proceeds received from the exercise of stock options are used to repurchase common shares at their average market price.

Assets under administration and assets under management

The Bank administers and manages assets held by customers that are not recognized on the consolidated balance sheet. Revenues collected for services related to these assets are recorded in other income.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing year-end exchange rates. Income and expenses are translated at the average monthly exchange rates. Gains and losses resulting from the translation of foreign currencies are included in other income.

Future changes to accounting policies

Stock-based compensation and other stock-based payments
The CICA issued a new standard regarding stock-based compensation and other stock-based payments. In relation with this standard, the Bank chose to charge to income, over the vesting period, the fair value of stock options awarded, calculated through the use of an option-pricing model. The standard also provides certain terms and conditions related to other stock-based payments. The Bank will adopt this standard prospectively effective November 1, 2002. The impact of this change on the results will depend on future awards and consequently cannot be determined.

With respect to awards prior to November 1, 2002, the Bank will continue to apply the previous standards according to which no compensation cost is recognized when stock options are awarded to employees or shares are issued. In addition, the consideration paid by employees who exercise their stock options is credited to common equity.

Hedging relationships
The CICA has issued an accounting guideline entitled "Hedging Relationships" which deals with the application of hedge accounting and an Abstract of the Emerging Issues Committee, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments". It is impossible to determine the impact of applying these guidelines as it depends, among other things, on the nature and fair value of the hedging relationships in place at the time of application. Their application has been postponed to fiscal years commencing on July 1, 2003 and will apply to hedging relationships in place at the beginning of the Bank's fiscal year starting on November 1, 2003.

2. Acquisitions

2002

Acquisition of net assets of Sun Life Financial Trust Inc.
On September 3, 2002, B2B Trust, a subsidiary of the Bank, and the Bank jointly completed the acquisition of portfolios of mortgage loans and personal loans valued at approximately $28,528,000 and $38,227,000 respectively of Sun Life Financial Trust Inc. In return, the Bank and its subsidiary assumed deposit liabilities valued at approximately $98,002,000 and received an amount of $30,882,000, net of acquisition costs incurred of approximately $365,000.

2001

Scotiabank branches
On November 1, 2000, the Bank acquired 43 Scotiabank branches in Quebec. The purchase price of $660,923,000 was paid in cash and includes acquisition costs of $605,000. This acquisition was recorded using the purchase method. The earnings of the 43 Scotiabank branches acquired in Quebec are included in the consolidated statement of income as of the acquisition date.

2. Acquisitions (continued)

Allocation of the purchase price:

	2001
Identifiable assets purchased	
Cheques and other items in transit, net	$ 8,871
Loans	1,782,910
Future tax assets	22,580
Other assets	29,523
Liabilities assumed	
Deposits	1,172,903
Other liabilities	53,929
Fair value of net identifiable assets purchased	617,052
Goodwill	43,871
Cash paid	$ 660,923
Integration costs	$ 22,000
Unused balance as at October 31, 2002	$ 552

Integration costs consist mainly of expenses for information technology conversion, severance payments and termination of leases.

3. Securities

A) Maturity schedule at year-end and returns on investment account

	2002						2001	
	Within 1 year $	1 to 5 years $	Over 5 years $	No stated maturity $	Total $	%	Total $	%
INVESTMENT ACCOUNT								
Securities issued or guaranteed								
by Canada	634,245	521,630	9,987	—	1,165,862	3.0	1,161,191	3.3
by provinces	404,319	214,558	84,329	—	703,206	3.4	406,392	4.3
Other debt securities	4,499	46,362	21,063	—	71,924	6.0	42,311	4.9
Preferred shares	—	—	—	29,771	29,771	1.5	33,031	2.3
Common shares and other	—	—	—	63,454	63,454	2.2	50,911	1.2
Mortgage-backed securities	—	32,183	11,717	—	43,900	7.9	20,811	12.3
Loan substitutes	6,468	—	—	—	6,468	3.2	6,468	3.2
	1,049,531	814,733	127,096	93,225	2,084,585	3.3	1,721,115	3.6
TRADING ACCOUNT								
Securities issued or guaranteed								
by Canada	71,665	242,292	105,001	—	418,958		271,755	
by provinces	29,961	123,217	214,010	—	367,188		208,200	
by municipal corporations	28,317	13,792	1,924	—	44,033		36,093	
Other debt securities	23,590	17,499	82,614	—	123,703		78,505	
Common shares and other	—	—	—	2	2		40	
Mortgage-backed securities	1,153	7,367	3,068	—	11,588		5,553	
	154,686	404,167	406,617	2	965,472		600,146	
	1,204,217	1,218,900	533,713	93,227	3,050,057		2,321,261	

The term to maturity included in the schedule above is based on the contractual maturity date of the security.

The weighted average return is calculated based on the book value at the year-end of each type of security.

3. Securities (continued)

B) Investment account – unrealized gains and losses

	2002				2001			
	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value
Securities issued or guaranteed								
by Canada	$1,165,862	$ 1,272	$ 4	$1,167,130	$1,161,191	$ 5,421	$ 2	$1,166,610
by provinces	703,206	1,276	1,805	702,677	406,392	3,521	1,943	407,970
Other debt securities	71,924	557	404	72,077	42,311	858	—	43,169
Preferred shares	29,771	1	843	28,929	33,031	5	1,498	31,538
Common shares and other	63,454	157	12,785	50,826	50,911	2	11,274	39,639
Mortgage-backed securities	43,900	830	—	44,730	20,811	—	—	20,811
Loan substitutes	6,468	—	—	6,468	6,468	—	—	6,468
	$2,084,585	$ 4,093	$ 15,841	$2,072,837	$1,721,115	$ 9,807	$ 14,717	$1,716,205

4. Loans

A) Loans and impaired loans

	2002				
	Gross amount of loans	Gross amount of impaired loans	Specific allowances	General allowances	Total allowances
Personal loans	$ 3,865,455	$ 24,364	$ 8,563	$ 19,479	$ 28,042
Residential mortgages	6,645,899	14,152	6,952	7,133	14,085
Commercial mortgages	955,772	26,561	17,216	10,156	27,372
Commercial loans and other	1,872,901	161,920	99,650	24,356	124,006
Unallocated general allowance	—	—	—	24,376	24,376
	$ 13,340,027	$ 226,997	$ 132,381	$ 85,500	$ 217,881

	2001				
	Gross amount of loans	Gross amount of impaired loans	Specific allowances	General allowances	Total allowances
Personal loans	$ 3,532,655	$ 23,088	$ 6,557	$ —	$ 6,557
Residential mortgages	6,971,166	21,076	4,962	—	4,962
Commercial mortgages	909,704	37,213	15,878	—	15,878
Commercial loans and other	2,159,752	78,250	21,115	—	21,115
Unallocated general allowance	—	—	—	85,000	85,000
	$ 13,573,277	$ 159,627	$ 48,512	$ 85,000	$ 133,512

Impaired loans include foreclosed assets of $62,456,000 in 2002 ($59,495,000 in 2001). Specific allowances related to foreclosed assets were $37,056,000 in 2002 ($22,365,000 in 2001).

4. Loans (continued)

B) Specific allowances for loan losses

	2002					2001
	Personal loans	Residential mortgages	Commercial mortgages	Commercial loans and other	Total specific allowances	Total specific allowances
Balance at beginning of year	$ 6,557	$ 4,962	$ 15,878	$ 21,115	$ 48,512	$ 35,661
Provision for credit losses charged to consolidated statement of income	23,245	2,932	2,557	82,266	111,000	35,000
Write-offs	(23,799)	(1,920)	(1,317)	(3,888)	(30,924)	(25,621)
Recoveries	2,560	978	98	157	3,793	3,472
Balance at end of year	$ 8,563	$ 6,952	$ 17,216	$ 99,650	$ 132,381	$ 48,512

C) General allowances for loan losses

	2002						2001
	Personal loans	Residential mortgages	Commercial mortgages	Commercial loans and other	Unallocated general allowance	Total general allowances	Total general allowances
Balance at beginning of year	$ —	$ —	$ —	$ —	$ 85,000	$ 85,000	$ 80,000
Allocation of the general provision upon adoption of new methodology	17,925	8,182	8,821	25,861	(60,789)	—	—
Change during the year	1,186	(1,181)	1,335	(1,505)	165	—	—
Allowances for loan losses resulting from acquisitions	368	132	—	—	—	500	5,000
Balance at end of year	$ 19,479	$ 7,133	$ 10,156	$ 24,356	$ 24,376	$ 85,500	$ 85,000

5. Loan securitization

The Bank securitizes mortgages to finance its activities and to improve its financial structure. Under the Canada Mortgage Bond Program, residential mortgages insured by the Canadian Mortgage and Housing Corporation ("CMHC") totalling $275,646,000 ($112,507,000 from June to October 2001) were securitized through the creation of mortgage-backed securities. The Bank subsequently sold such mortgage-backed securities in the amount of $249,144,000 ($104,909,000 from June to October 2001) and recorded the difference on the balance sheet as securities in the investment account. The Bank also securitized conventional residential mortgages for an amount of $401,013,000 ($ nil from June to October 2001) and conventional commercial mortgages for an amount of $53,117,000 ($ nil from June to October 2001), under other programs.

In relation to these transactions, during the year, the Bank collected cash proceeds amounting to $697,555,000 ($104,425,000 from June to October 2001) and recognized, in other income, a securitization gain of $9,818,000 ($3,350,000 from June to October 2001) net of the transaction-related costs. The calculation of this gain takes into account the rights to excess interest spread of $24,869,000 ($6,095,000 from June to October 2001) and cash reserve accounts of $8,017,000 ($ nil from June to October 2001). The Bank has not retained any right or obligation with respect to the commercial mortgages sold during the year.

With regards to the transfer of residential mortgage loans, the key assumptions used to determine the fair value of retained interests are summarized as follows:

Key assumptions	2002	2001
Weighted average life (in months)	35	48
Rate of prepayment	10 to 11 %	9 %
Excess spread	1.5 %	1.5 %
Expected credit losses on conventional residential mortgages(1)	0.25 %	n/a
Discount rate	6.5 to 7.2 %	6.8 to 7.5 %

(1) No loss is expected on insured residential mortgages.

5. Loan securitization (continued)

On October 31, 2002, the Bank had retained interests related to residential mortgage securitization transactions amounting to $29,143,000 ($5,824,000 in 2001). As at October 31, 2002, the sensitivity of the fair value of the retained interests to immediate unfavorable changes of 10% and 20% in the key assumptions is presented in the following table. As at October 31, 2001, the value of the retained interests was insignificant and the changes in the key assumptions did not have a material impact on the value of the interests retained as at that date.

Sensitivity of key assumptions to unfavourable changes	Residential mortgages
Rate of prepayment	
Impact on fair value of unfavorable change of 10%	$ 765
Impact on fair value of unfavorable change of 20%	$ 1,512
Excess spread	
Impact on fair value of unfavorable change of 10%	$ 1,191
Impact on fair value of unfavorable change of 20%	$ 2,382
Expected credit losses	
Impact on fair value of unfavorable change of 10%	$ 221
Impact on fair value of unfavorable change of 20%	$ 403
Discount rate	
Impact on fair value of unfavorable change of 10%	$ 55
Impact on fair value of unfavorable change of 20%	$ 112

These sensitivities are hypothetical and should be used with caution. Changes in the fair value attributed to changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in the fair value may not be linear. Changes in one factor may result in changes in another factor which might magnify or counteract the sensitivities attributed to changes in key assumptions.

The total principal amount of securitized loans under the new standards totalled $738,558,000 at the end of the year ($110,722,000 at the end of 2001).

In 2001, before the new standards were adopted, the Bank had securitized residential mortgages for an amount of $201,481,000 and commercial mortgages for an amount of $200,192,000. These transactions were accounted for under the standards in effect on those dates as described in Note 1. Deferred gains resulting from the sale of these loans amounted to $2,009,000 for the year ended October 31, 2001.

The total principal amount of securitized loans accounted for under the former standards totalled $842,593,000 at the end of the year ($1,814,471,000 at the end of 2001).

6. Capital assets

			2002	2001
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 3,541	$ —	$ 3,541	$ 5,814
Premises	16,598	3,474	13,124	21,205
Leasehold improvements	49,872	29,382	20,490	21,298
Equipment and furniture	75,421	62,152	13,269	15,194
Computer equipment and software	267,976	157,803	110,173	115,255
	$ 413,408	$ 252,811	$ 160,597	$ 178,766

Depreciation expense recorded in the consolidated statement of income amounts to $39,199,000 ($36,106,000 in 2001).
Computer equipment and software include an amount totalling $13,712,000 ($11,470,000 in 2001) related to projects under development that are not depreciated.

7. Goodwill

Goodwill variations during the year are as follows:

					2002
	Retail Financial Services	Commercial Financial Services	B2B Trust and Agency Banking	Wealth Management and Brokerage	Total
Balance at beginning of year	$ 53,790	$ 4,771	$ 91	$ 5,400	$ 64,052
Impairment based on transitional test	—	(4,771)	—	(5,161)	(9,932)
Write-off	—	—	(91)	—	(91)
Balance at end of year	$ 53,790	$ —	$ —	$ 239	$ 54,029

Refer to Note 24 for description of business segments.

The following table provides a reconciliation of reported net income and adjusted net income:

	2002	2001
Net income	$ 44,344	$ 90,705
Amortization of goodwill, net of income taxes	—	4,124
Adjusted net income	$ 44,344	$ 94,829
Net income per common share, as reported	$ 1.27	$ 3.40
Amortization of goodwill, net of income taxes	—	0.18
Adjusted net income per common share	$ 1.27	$ 3.58
Diluted net income per common share, as reported	$ 1.26	$ 3.37
Amortization of goodwill, net of income taxes	—	0.18
Adjusted diluted net income per common share	$ 1.26	$ 3.55

8. Other assets

	2002	2001
Future income tax assets (Note 17)	$ 121,200	$ 126,359
Assets related to securitized mortgage loans	71,899	89,699
Accrued interest receivable	90,334	72,900
Derivative related amounts	63,747	57,784
Accrued benefit assets (Note 14)	38,272	35,876
Mutual fund management contract (see below)	2,630	6,750
Accounts receivable, prepaid expenses and other items	165,127	132,302
	$ 553,209	$ 521,670

Reorganization of Iris and R mutual funds

On December 31, 2001, the Bank proceeded with the reorganization of IRIS Funds and R Funds. The management contract relating to the IRIS Funds was sold to BLC-Edmond de Rothschild Asset Management Inc., a joint venture of the Bank and Compagnie financière Edmond de Rothschild Banque, for a cash consideration totalling $12,500,000 that generated a gain of $2,694,000. Following the sale of the management contract, the Bank only maintains its share of the contract that pertains to its interest in the joint venture. Amortization of the mutual fund contract recorded in the consolidated statement of income, during the year, amounts to $876,000 ($1,500,000 in 2001).

9. Deposits

				2002
	Demand	Notice	Term	Total
Individuals	$ 105,609	$ 1,879,458	$ 10,022,890	$ 12,007,957
Business and other	618,792	131,108	2,210,417	2,960,317
	$ 724,401	$ 2,010,566	$ 12,233,307	$ 14,968,274

				2001
	Demand	Notice	Term	Total
Individuals	$ 92,678	$ 1,608,010	$ 9,819,055	$ 11,519,743
Business and other	517,779	99,887	2,380,628	2,998,294
	$ 610,457	$ 1,707,897	$ 12,199,683	$ 14,518,037

Demand deposits consist of deposits in respect of which the Bank is not authorized to require a notice at the time of withdrawal by the customer. These deposits are primarily made up of chequing accounts.

Notice deposits consist of deposits in respect of which the Bank may legally require a withdrawal notice. These deposits are generally made up of savings accounts.

Term deposits consist of deposits maturing at a specific date, in particular term deposits and guaranteed investment certificates.

Deposits denominated in U.S. dollars amount to $303,593,000 ($375,135,000 in 2001) and deposits denominated in other foreign currencies amount to $43,061,000 ($39,424,000 in 2001).

10. Other liabilities

	2002	2001
Accrued interest payable	$ 467,361	$ 464,324
Liabilities related to securitized mortgage loans[1]	96,410	116,314
Derivative related amounts	68,194	41,052
Accrued benefit liabilities (Note 14)	10,975	8,108
Accounts payable, accrued expenses and other (Note 16)	73,967	112,123
	$ 716,907	$ 741,921

[1] Includes deferred gains in the amount of $10,475,000 ($25,645,000 in 2001).

11. Subordinated debentures

The debentures are direct unsecured obligations of the Bank and are subordinated in right of payment to the claims of depositors and certain other creditors of the Bank. Any repurchase or cancellation of subordinated debentures must be approved by the Superintendent of Financial Institutions of Canada.

11. Subordinated debentures (continued)

Maturity	Series	Interest rate	Special terms	2002	2001
June 2009	7	5.75 %	Redeemable at par as of June 2004; rate to be revised in June 2004 and set at the 90-day bankers' acceptance rate plus 1%	$ 100,000	$ 100,000
December 2009	8	7.00 %	Redeemable at par as of December 2004; rate to be revised in December 2004 and set at the 90-day bankers' acceptance rate plus 1.25%	100,000	100,000
October 2010	6	8.90 %	Redeemable at par as of October 2005; rate to be revised in October 2005 and set at the 90-day bankers' acceptance rate plus 1%	50,000	50,000
June 2011	9	6.50 %	Redeemable at par as of June 2006; rate to be revised in June 2006 and set at the 90-day bankers' acceptance rate plus 1.25%	150,000	150,000
				$ 400,000	$ 400,000

The maturities of the debentures, assuming the earliest possible dates of repayment under the terms of issue, are as follows:

2004	$ 100 000
2005	150 000
2006	150 000
	$ 400 000

12. Capital stock

Authorized:

Unlimited number of Class A Preferred Shares, without par value, issuable in series.

Unlimited number of Common Shares, without par value.

Issued and outstanding as at October 31:

	2002		2001	
	Number of shares	Amount	Number of shares	Amount
Class A Preferred Shares				
Series 2	4,000	$ 400	4,000	$ 400
Series 6	—	—	2,400,000	60,000
Series 7	2,000,000	50,000	2,000,000	50,000
Series 8	2,000,000	50,000	2,000,000	50,000
Series 9	4,000,000	100,000	—	—
Total preferred shares	8,004,000	200,400	6,404,000	160,400
Common Shares	23,408,603	246,230	22,867,940	234,240
Total capital stock		$ 446,630		$ 394,640

Preferred shares

The Class A Preferred Shares, Series 2, are entitled to a cumulative dividend at a rate equal to the greater of 7% or 70% of the average daily prime rate and are redeemable at the option of the Bank at a price of $100 per share. The Bank may purchase the shares for cancellation, on the market or by invitation for tender to all holders at a price per share not exceeding the redemption price applicable plus any related purchase fees.

12. **Capital stock** (continued)

The Class A Preferred Shares, Series 6, were entitled to a non-cumulative quarterly dividend of $0.547 per share. On or after November 26, 2001, the Bank was able to redeem these shares at a price of $25 each or to convert them into the number of common shares determined by dividing $25 by the greater of $3 or 95% of the weighted average prevailing market price of the common shares at that date. On or after February 26, 2002, each share was convertible, at the option of the holder, into the number of common shares determined by dividing $25 by the greater of $3 or 95% of the weighted average prevailing market price of the common shares at that date; this conversion was subject to the right of the Bank to redeem the shares for cash or to find substitute purchasers.

The Class A Preferred Shares, Series 7 and 8, are entitled to a non-cumulative quarterly dividend of $0.484 per share. On or after June 15, 2003, the Bank will be able to redeem these shares at a price of $25 each plus, if the redemption takes place before June 15, 2005, a premium of $1 which will decrease to zero depending on the date of redemption. Moreover, the Bank will be able, on or after June 15, 2003, to convert all or a portion of the Preferred Shares, Series 7 and 8, into a round number of common shares determined by dividing the redemption price then applicable by the greater of $3 or 95% of the weighted average prevailing market price of the common shares at that date. On or after June 15, 2005, each share will be convertible, at the option of the holder, into the number of common shares determined by dividing $25 by the greater of $3 or 95% of the weighted average prevailing market price of the common shares at that date; this conversion will be subject to the right of the Bank to redeem the shares for cash or to find substitute purchasers.

The Class A Preferred Shares, Series 9, are entitled to a non-cumulative quarterly dividend of $0.375 per share. On or after December 15, 2006, the Bank will be able to redeem these shares at a price of $25 each plus, if the redemption takes place before December 15, 2010, a premium of $1 which will decrease to zero depending on the date of redemption. Moreover, the Bank will be able, on or after December 15, 2006, to convert all or a portion of the Preferred Shares, Series 9, into a round number of common shares determined by dividing the redemption price then applicable by the greater of $2.50 or 95% of the weighted average prevailing market price of the common shares at that date.

Issuance of preferred shares
On November 7, 2001, the Bank issued 4,000,000 Preferred Shares Series 9 at a price of $25 per share, representing total proceeds of $100,000,000. The net proceeds to the Bank amounted to $97,885,000.

Redemption of preferred shares
On November 26, 2001, the Bank redeemed all of its Non-Cumulative Class A Preferred Shares, Series 6 at a price of $25 per share, for an aggregate consideration of $60,000,000. The preferred shares so called for redemption ceased to be entitled to dividends from the redemption date.

Common shares

During the year, 540,663 common shares (214,196 shares in 2001) were issued under the employee share purchase option plan for a total cash consideration of $11,990,000 ($3,698,000 in 2001). In 2001, 2,500,000 common shares had been issued for a total cash consideration of $63,500,000.

Shareholder Rights Plan

In 2001 and 2002, the Board of Directors of the Bank approved, and the shareholders ratified, a Shareholder Rights Plan (the "Rights Plan") intended to encourage the fair treatment of shareholders in connection with any take-over bid for the Bank. The rights issued under the Rights Plan become exercisable only when a person, including related persons, acquires or announces its intention to acquire 20% or more of the Bank's outstanding common shares without complying with the "Permitted Bid" provisions of the Rights Plan or without approval of the Board of Directors of the Bank. Should such an acquisition occur, each right would, upon exercise, entitle a rights holder, other than the acquiring person and related persons, to purchase common shares of the Bank at a 50% discount of the market price at the time. Under the Rights Plan, a Permitted Bid is a bid made by means of a take-over bid circular sent to all shareholders of the Bank and is open for not less than 60 days. If at the end of the 60 days, at least 50% of the outstanding common shares have been tendered, other than those belonging to the offeror or related persons, the offeror may take up and pay for the shares but must extend his bid for a further 10 days to allow other shareholders to tender their shares. In the event of a hostile take-over bid, the rights will cause substantial dilution to the person attempting the take-over.

13. Stock-based compensation

Share purchase options

Pursuant to a share purchase option plan, options are granted to key employees for the purchase of common shares at prices not less than the market price of such shares immediately prior to the grant date.

The right to exercise the options is acquired gradually over a maximum period of 4 years and the options can be exercised at all times up to 10 years after they have been granted.

As at October 31, 2002, the Bank had reserved 1,600,000 common shares (1,600,000 shares in 2001) for the potential exercise of stock options, of which 66,843 (157,707 in 2001) were still available.

The following table shows the Bank's outstanding stock options for the years ended October 31:

	2002		2001	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	1,074,353	$ 24.15	1,236,545	$ 22.66
Granted	100,000	$ 28.22	54,600	$ 30.73
Exercised	(540,663)	$ 22.18	(214,196)	$ 17.26
Cancelled	(9,136)	$ 22.38	(2,596)	$ 23.81
Outstanding, end of year	624,554	$ 26.54	1,074,353	$ 24.15
Exercisable, end of year	370,891	$ 26.63	671,850	$ 23.50

The following table summarizes information relating to stock options outstanding and exercisable at October 31, 2002.

	Options outstanding			Options exercisable	
Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
$15.85 - $19.94	80,154	5.99	$ 18.76	43,832	$ 18.21
$21.35 - $25.14	114,794	6.53	$ 22.25	73,153	$ 22.17
$27.08 - $31.80	429,606	8.82	$ 29.14	253,906	$ 29.36
	624,554			370,891	

Other stock-based compensation plans

The Bank offers a stock appreciation rights ("SAR") plan to members of senior management of the Bank and its subsidiaries. These SARs may be settled in consideration of a cash amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs are acquired over a maximum period of five years. During the year, an expense of $139,000 ($5,603,000 in 2001) was recorded relating to this plan. As at October 31, 2002, 471,663 SARs (846,652 in 2001) were outstanding at a weighted average exercise price of $25.01 ($24.14 in 2001), of which 220,285 (276,282 in 2001) were exercisable at the end of the year.

A deferred share unit plan is also offered to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his remuneration in the form of deferred share units. The value of the deferred share units as at October 31, 2002 amounted to $380,000 ($254,000 as at October 31, 2001). The compensation expense recorded during the year, in respect of this plan, was $181,000 ($148,000 in 2001).

14. Employee future benefits

The following table provides information about the Bank's employee future benefits plans, including the amounts recorded on the consolidated balance sheet and the components of the net plan expense.

	2002		2001	
	Pension plans	Other plans	Pension plans	Other plans
CHANGE IN ACCRUED BENEFIT OBLIGATION				
Accrued benefit obligation at beginning of year	$ 210,109	$ 16,216	$ 197,832	$ 15,987
Service cost	6,551	119	6,474	111
Cost of past service	5,816	—	—	—
Interest cost	15,293	1,043	14,111	1,029
Benefits paid	(10,428)	(975)	(11,178)	(911)
Plan participant contributions	3,019	—	2,870	—
Actuarial gain	(633)	—	—	—
Others	1,901	—	—	—
Accrued benefit obligation at end of year	$ 231,628	$ 16,403	$ 210,109	$ 16,216
CHANGE IN FAIR VALUE OF PLAN ASSETS				
Fair value of plan assets at beginning of year	$ 198,262	$ —	$ 221,834	$ —
Actual return on plan assets	(14,397)	—	(21,414)	—
Bank's contributions	7,115	—	5,572	—
Plan participant contributions	3,019	—	2,870	—
Benefits paid	(9,985)	—	(10,600)	—
Fair value of plan assets at end of year	$ 184,014	$ —	$ 198,262	$ —
FUNDED STATUS				
Overfunded (underfunded) status at end of year	$ (47,614)	$ (16,403)	$ (11,847)	$ (16,216)
Unrecognized transition obligation	1,375	14,297	1,639	15,118
Unrecognized cost of past services	5,362	—	—	—
Unrecognized net actuarial loss	70,280	—	39,074	—
Accrued benefit asset (liability) at end of year	$ 29,403	$ (2,106)	$ 28,866	$ (1,098)
Accrued benefit assets at end of year	$ 38,272	$ —	$ 35,876	$ —
Accrued benefit liabilities at end of year	$ 8,869	$ 2,106	$ 7,010	$ 1,098
WEIGHTED AVERAGE ASSUMPTIONS				
Discount rate	7.00 %	7.00 %	7.00 %	7.00 %
Assumed long-term rate of return on plan assets	7.75 %	—	8.00 %	—
Rate of increase in future compensation	3.50 %	3.50 %	3.50 %	3.50 %

For valuation purposes, the hypothetical average annual growth rate of healthcare costs covered for each participant was set at 10% for medical care and 3.5% for dental care. Based on the assumption adopted, the rate for medical care would be gradually reduced to 4% over a 10-year period.

As at October 31, 2002, the defined benefit pension plans are not fully funded. Included in the accrued benefit obligation as at October 31, 2001 was $89,481,000 and included in the fair value of plan assets was $73,554,000, in respect of plans that were not fully funded.

14. Employee future benefits (continued)

	2002 Pension plans	2002 Other plans	2001 Pension plans	2001 Other plans
Transition obligation at beginning of year	$ 1,639	$ 15,118	$ 1,963	$ 15,987
Amortization	(264)	(821)	(324)	(869)
Transition obligation at end of year	$ 1,375	$ 14,297	$ 1,639	$ 15,118
NET PLAN EXPENSE COMPONENTS AS AT OCTOBER 31				
Service cost	$ 6,551	$ 119	$ 6,474	$ 111
Interest cost	15,293	1,043	14,111	1,029
Expected return on plan assets	(17,430)	—	(17,660)	—
Amortization of transition obligation	264	821	324	869
Amortization of cost of past service	454	—	—	—
Defined contribution provision	2,276	—	1,717	—
Amortization of actuarial gain	(12)	—	—	—
Other	401	—	(81)	—
Net plan expense	$ 7,797	$ 1,983	$ 4,885	$ 2,009

15. Non-controlling interest in a subsidiary and gain on dilution

In 2001, B2B Trust, a subsidiary of the Bank, completed an initial public offering of 6,394,000 of its common stock for gross proceeds in the amount of $57,546,000 ($53,072,000 net of issue costs). Following the offering, the Bank held approximately 74.3% of the common shares outstanding of B2B Trust and realized a dilution gain of $12,430,000. The gain was not subject to income taxes because B2B Trust issued new treasury shares.

16. Restructuring costs

The consolidated statement of income for 2001 included restructuring costs of $17,540,000 ($11,401,000 net of income taxes) related to the implementation of the Bank's strategy. These costs included the write-off of certain assets and lease terminations, severance payments and other costs. During the year, the Bank reviewed certain projects which were initially part of the restructuring. As a result, costs related to certain projects were increased by $1,832,000, while others, that proved to be less onerous, were decreased by $2,461,000.

	Restructuring cost arising during 2001	Amount utilized	Balance as at October 31, 2001	Increase in 2002	Amount utilized	Reversal	Balance as at October 31, 2002
Write-off of assets and lease terminations	$ 10,620	$ 4,222	$ 6,398	$ 904	$ 4,284	$ 1,709	$ 1,309
Human resources expenses	3,354	72	3,282	928	3,004	—	1,206
Other costs	3,566	137	3,429	—	2,530	752	147
Total restructuring costs	$ 17,540	$ 4,431	$ 13,109	$ 1,832	$ 9,818	$ 2,461	$ 2,662

17. Income taxes

Significant components of the Bank's future income tax assets and liabilities are as follows:

	2002	2001
Prospective tax loss deferrals	$ 5,284	$ 37,973
Capital assets	53,697	40,944
Allowance for loan losses	37,208	28,548
Recoverable minimum tax of financial institutions	31,850	17,617
Intangible assets	8,893	11,769
Other temporary differences	3,719	3,580
Deferred charges	(19,451)	(14,072)
Future income tax assets, net	$ 121,200	$ 126,359

Significant components of the provision for income taxes are as follows:

	2002	2001
CONSOLIDATED STATEMENT OF INCOME		
Current income tax expense	$ 21,575	$ 23,178
Future income tax expense		
Tax rate changes	3,716	13,918
Creation and reversal of temporary differences	7,133	20,514
	10,849	34,432
	$ 32,424	$ 57,610
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY		
Income taxes on preferred dividends and on share issue costs	$ (55)	$ 501
Current income tax expense	5,635	501
Future income tax benefit	(5,690)	—
	$ (55)	$ 501

The reconciliation of income tax expense to income tax computed at the statutory tax rates is:

	2002		2001	
	Amount	Percent	Amount	Percent
Income taxes at statutory rate	$ 30,901	37.6 %	$ 60,233	40.1 %
Increase (decrease) resulting from:				
Gain on dilution	—	—	(4,960)	(3.3)
Tax benefits previously not recorded	(2,000)	(2.4)	(4,000)	(2.7)
Tax on earnings and dividends from foreign operations	(1,285)	(1.6)	(5,384)	(3.6)
Large corporations tax	3,139	3.8	1,776	1.2
Tax rate changes	3,716	4.5	13,918	9.3
Other, net	(2,047)	(2.4)	(3,973)	(2.7)
Income taxes reported in income and effective tax rate	$ 32,424	39.5 %	$ 57,610	38.3 %

Income earned on credit insurance from foreign operations will only be taxed upon repatriation to Canada. Since management of the Bank currently does not anticipate repatriating these retained earnings, no future income tax expense was recorded in this regard.

18. Net income per common share

Average number of common shares outstanding is as follows:

	2002	2001
Average number of common shares outstanding	23,095	22,710
Stock options	193	186
Average number of common shares outstanding after dilution	23,288	22,896

The Preferred Shares of Series 6, 7, 8 and 9 are convertible into common shares. These conversions were not taken into account in the calculation of diluted net income per common share because the Bank may settle such conversions in cash rather than common shares and, based on past experience, the Bank usually opts for a cash settlement.

An average of 85,011 (176,600 in 2001) stock options were not taken into account in the calculation of diluted net income per common share since the average exercise price of these options exceeded the average market value of the Bank's shares during the year.

19. Related party transactions

The Bank provides loans to current and former directors, officers and employees at different rates and conditions. The interest earned on these loans is recorded under interest income in the consolidated statements of income. The outstanding balances of these loans are as follows:

	2002	2001
Mortgage loans	$ 86,976	$ 97,663
Other loans	9,857	11,014
	$ 96,833	$ 108,677

20. Derivative financial instruments

In the normal course of business, the Bank enters into various contracts and commitments in order to protect itself against the risk of fluctuations in interest rates and foreign exchange rates and to meet its customers' demands as well as to earn trading income as described below.

The various derivative financial instruments listed in the tables on the next page are defined as follows:

i) Interest rate swaps involve the exchange of fixed and floating interest payment obligations based on a predetermined notional amount for a specified period of time. Foreign exchange swaps involve the exchange of the principal and fixed or floating interest payments in different currencies. Cross-currency interest rate swaps involve the exchange of both the principal amount and fixed and floating interest payment obligations in two different currencies.

ii) Forward rate agreements are contracts fixing an interest rate to be paid or received, calculated on a notional principal amount with a specified maturity commencing at a specified future date.

iii) Options are agreements between two parties in which the writer of the option grants the buyer the future right, but not the obligation, to buy or to sell, at or by a specified date, a specific amount of a financial instrument at a price agreed upon when the option is arranged. The writer receives a premium for selling this instrument.

iv) Futures are future commitments to purchase or deliver a financial instrument on a specified future date at a specified price. Futures are traded in standardized amounts on organized exchanges and are subject to daily cash margining.

v) Foreign exchange forward contracts are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

The Bank also conducts equity derivative transactions in order to hedge its index-linked deposits.

The following tables present the notional amounts associated with the derivative financial instruments. The amounts are not indicative of the potential gain or loss related to the credit or market risk of these instruments.

20. Derivative financial instruments (continued)

A) Remaining term to maturity

(in millions of dollars)

Notional amount	Period to maturity: Within 1 year	1 to 5 years	Over 5 years	Total	2002 Trading	2002 Other than trading	2001 Trading	2001 Other than trading
INTEREST RATE CONTRACTS								
OTC contracts								
Swaps	$ 1,857	$ 7,491	$ 156	$ 9,504	$ —	$ 9,504	$ —	$ 9,946
Forward rate agreements	986	314	—	1,300	—	1,300	—	2,936
Options written	600	—	—	600	—	600	—	585
Exchange-traded contracts								
Futures	402	—	—	402	302	100	632	2,271
FOREIGN EXCHANGE CONTRACTS								
OTC contracts								
Foreign exchange swaps	1,560	104	—	1,664	1,664	—	873	—
Cross-currency interest rate swaps	50	50	—	100	—	100	—	218
Forwards	495	96	—	591	591	—	461	—
Options purchased	963	—	—	963	—	963	—	507
Options written	918	—	—	918	—	918	—	506
Exchange-traded contracts								
Futures	32	—	—	32	32	—	58	—
OTHER CONTRACTS[1]	40	153	—	193	—	193	—	181
	$ 7,903	$ 8,208	$ 156	$ 16,267	$ 2,589	$ 13,678	$ 2,024	$ 17,150

[1] *Includes over-the-counter index-linked and equity derivatives.*

B) Credit exposure

(in millions of dollars)

	2002 Notional amount	Fair value favorable	Fair value unfavorable	Credit equivalent amount	Risk-weighted amount	2001 Fair value favorable	Fair value unfavorable	Risk-weighted amount
INTEREST RATE CONTRACTS								
OTC contracts								
Swaps	$ 9,504	$ 108	$ (145)	$ 148	$ 30	$ 170	$ (154)	$ 40
Forward rate agreements	1,300	—	(3)	2	—	—	(7)	1
Options written	600	—	(1)	—	—	—	(3)	—
Exchange-traded contracts								
Futures	402	—	—	—	—	4	(3)	—
FOREIGN EXCHANGE CONTRACTS								
OTC contracts								
Foreign exchange swaps	1,664	8	(7)	14	3	3	(9)	2
Cross-currency interest rate swaps	100	3	(8)	6	1	14	(11)	4
Forwards	591	2	(5)	11	6	10	(1)	8
Options purchased	963	4	—	13	5	2	—	2
Options written	918	—	(3)	—	—	—	(2)	—
Exchange-traded contracts								
Futures	32	—	—	—	—	1	—	—
OTHER CONTRACTS[1]	193	8	(1)	23	5	33	(3)	8
	$ 16,267	$ 133	$ (173)	$ 217	$ 50	$ 237	$ (193)	$ 65

[1] *Includes over-the-counter index-linked and equity derivatives.*

20. Derivative financial instruments (continued)

The majority of the credit concentration of the Bank with respect to derivative financial instruments is with financial institutions, primarily Canadian banks.

Foreign exchange and interest rate related contracts and options are expressed in notional principal amounts upon which the contractual cash flows are based. These notional amounts represent the volume of outstanding transactions and are not indicative of the credit or market risk of these contracts. The fair value may fluctuate as a result of timing of cash flows and changes in interest and foreign exchange rates. The credit risk amount associated with these contracts is limited to the fair value of all non-matured contracts with a favorable fair value for the Bank without taking into account any netting or collateral arrangements that have been made. The credit equivalent amount is the credit risk amount plus an add-on for potential future exposure based on a formula prescribed by the Superintendent of Financial Institutions of Canada in its Capital Adequacy Guidelines. The risk-weighted amount is the credit equivalent amount multiplied by counterparty risk factors prescribed by this guideline. Unrealized gains on trading derivative financial instruments are recorded in other assets and unrealized losses are recorded in other liabilities.

21. Financial instruments

A) Fair value

The amounts that follow present the fair value of on- and off-balance sheet financial instruments based on the valuation methods and assumptions as set out below.

Fair value represents the amount at which a financial instrument could be exchanged between willing parties. Quoted market prices are not available for a significant portion of the Bank's financial instruments. In such cases, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of the net realizable value.

(in millions of dollars)	2002			2001		
	Book value	Fair value	Variance favorable (unfavorable)	Book value	Fair value	Variance favorable (unfavorable)
ASSETS						
Cash resources	$ 454	$ 454	$ —	$ 184	$ 184	$ —
Securities	$ 3,050	$ 3,038	$ (12)	$ 2,321	$ 2,316	$ (5)
Loans	$ 13,992	$ 14,232	$ 240	$ 14,089	$ 14,502	$ 413
Customers' liability under acceptances	$ 332	$ 332	$ —	$ 336	$ 336	$ —
Other assets	$ 192	$ 192	$ —	$ 175	$ 175	$ —
LIABILITIES						
Deposits	$ 14,968	$ 15,207	$ (239)	$ 14,518	$ 14,882	$ (364)
Obligations related to assets sold short	$ 861	$ 861	$ —	$ 670	$ 670	$ —
Obligations related to assets sold under repurchase agreements	$ 448	$ 448	$ —	$ 208	$ 208	$ —
Acceptances	$ 332	$ 332	$ —	$ 336	$ 336	$ —
Other liabilities	$ 706	$ 706	$ —	$ 716	$ 716	$ —
Subordinated debentures	$ 400	$ 427	$ (27)	$ 400	$ 434	$ (34)
Off-balance sheet derivative financial instruments	$ —	$ (38)	$ (38)	$ —	$ 40	$ 40

The fair value of items which are short term in nature or contain variable rate features is considered to be equal to book value.

The fair value of securities is based on quoted market prices or, if not available, it is estimated using quoted market prices of similar investments.

The fair value of loans, deposits and subordinated debentures is estimated by discounting cash flows using market interest rates.

The fair value of off-balance sheet derivative financial instruments is based on quoted market prices or dealer quotes. Otherwise, fair value is estimated on the basis of pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows.

21. Financial instruments (continued)

B) Interest rate risk

The following table gives the detailed maturity dates and average effective rates of the on- and off-balance sheet instruments of the Bank.

2002

(in millions of dollars)	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Non-interest sensitive	Total
ASSETS								
Cash resources and securities	$ 1,065	$ 1,032	$ 304	$ 670	$ 151	$ 115	$ 167	$ 3,504
Rate	2.5 %	2.8 %	3.0 %	3.3 %	4.1 %	5.6 %	—	2.8 %
Loans	4,610	995	2,063	3,438	2,593	237	56	13,992
Rate	5.1 %	5.7 %	6.3 %	6.7 %	7.2 %	7.1 %	—	6.1 %
Other assets	326	233	—	—	—	—	541	1,100
Rate	—	—	—	—	—	—	—	—
Total	6,001	2,260	2,367	4,108	2,744	352	764	18,596
Rate	4.4 %	3.8 %	5.9 %	6.1 %	7.0 %	6.6 %	—	5.1 %
LIABILITIES AND EQUITY								
Demand and notice deposits	392	24	72	821	821	—	605	2,735
Rate	1.9 %	0.2 %	0.2 %	0.1 %	0.1 %	—	—	0.3 %
Term deposits	—	2,286	3,335	4,346	2,266	—	—	12,233
Rate	—	2.6 %	3.5 %	4.8 %	5.2 %	—	—	4.1 %
Other liabilities	424	1,402	281	140	38	32	41	2,358
Rate	0.6 %	2.3 %	0.8 %	4.9 %	5.0 %	6.6 %	—	2.0 %
Debentures, minority shareholder interest and equity	—	—	100	250	250	—	670	1,270
Rate	—	—	7.7 %	7.7 %	6.3 %	—	—	3.4 %
Total	816	3,712	3,788	5,557	3,375	32	1,316	18,596
Rate	1.2 %	2.5 %	3.3 %	4.2 %	4.0 %	6.6 %	—	3.2 %
Swaps, net	—	(1,415)	357	597	436	25	—	—
Other derivative financial instruments	—	86	(34)	(52)	—	—	—	—
Sensitivity gap	$ 5,185	$ (2,781)	$ (1,098)	$ (904)	$ (195)	$ 345	$ (552)	$ —
Cumulative gap	$ 5,185	$ 2,404	$ 1,306	$ 402	$ 207	$ 552	$ —	$ —

2001

(in millions of dollars)	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Non-interest sensitive	Total
ASSETS	$ 4,838	$ 2,577	$ 2,369	$ 4,363	$ 2,425	$ 357	$ 767	$ 17,696
Rate	5.1 %	4.5 %	6.3 %	6.5 %	7.2 %	7.3 %	—	5.7 %
LIABILITIES AND EQUITY	688	3,644	4,244	5,027	2,801	198	1,094	17,696
Rate	0.6 %	2.8 %	4.2 %	4.2 %	4.6 %	6.5 %	—	3.6 %
Swaps, net	—	(1,541)	872	166	478	25	—	—
Other derivative financial instruments	—	189	29	(163)	(98)	43	—	—
Sensivity gap	$ 4,150	$ (2,419)	$ (974)	$ (661)	$ 4	$ 227	$ (327)	$ —
Cumulative gap	$ 4,150	$ 1,731	$ 757	$ 96	$ 100	$ 327	$ —	$ —

21. Financial instruments (continued)

Assets, liabilities and equity are shown at the earlier of the date of maturity or contractual re-evaluation while taking into consideration reimbursements or estimated prepayments, except for the following:

- Loans and deposits for which the interest rates are not indexed on a specific rate and which can be non-sensitive to variations of market rates are classified based on the historical evolution of their sensitivity.
- Debentures for which interest rates can be revised at a future date are classified at the re-evaluation date; those for which rates cannot be revised are classified at their maturity.
- Preferred shares are classified using the date on which they become redeemable.

C) Concentration of credit risk

Concentration of credit risk exists where a number of borrowers or counterparties engaged in similar activities are located in the same geographic area or have comparable economic characteristics. Their ability to meet contractual obligations may be similarly affected by changing economic, political or other conditions. The Bank's operations are located in Canada.

The following table shows loans based on location:

	2002	2001
Quebec	51 %	51 %
Ontario	35 %	32 %
Western Canada	14 %	17 %
Total	100 %	100 %

No single industry segment accounted for more than 3% (3% in 2001) of the total loans and customers' liability under acceptances.

22. Commitments and contingencies

A) Credit-related commitments

The amounts of credit-related commitments represent the maximum amount of additional credit that the Bank could be obliged to extend. These amounts are not necessarily indicative of credit risk as many of these arrangements are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon.

	2002	2001
Unutilized credit balances	$ 2,227,547	$ 2,291,464
Guarantees and letters of credit	$ 160,934	$ 127,193

22. Commitments and contingencies (continued)

B) Lease commitments, service contracts for information technology services and other contracts

Minimum future commitments under leases, service contracts for outsourced technology services and other contracts are as follows:

	Premises	Information technology service contracts	Other
2003	$ 24,691	$ 18,382	$ 1,494
2004	21,284	19,684	1,083
2005	17,869	20,073	1,083
2006	14,723	13,382	1,083
2007	12,298	14,151	1,083
Thereafter	22,097	66,468	721
Total	$ 112,962	$ 152,140	$ 6,547

As stipulated under major service contracts for information technology services, the Bank may terminate the agreement in certain circumstances.

C) Litigation

The Bank and its subsidiaries are involved in various pending legal actions which arise in the normal course of business. Management considers that adequate provisions have been set aside to cover any future losses and any amounts that might not be recoverable from insurance companies, as the case may be, in connection with these actions.

D) Pledged assets

Assets with a book value of $333,465,000 ($240,676,000 in 2001) have been deposited as collateral in order to participate in clearing and payment systems. In addition, securities amounting to $447,862,000 ($207,501,000 in 2001) have been sold under repurchase agreements containing collateral recorded as loans.

23. Comparative figures

Certain comparative figures have been reclassified to conform to the current year presentation. Specifically, deposits in the amount of $315,643,000 as at October 31, 2001 that were formerly recorded under "Business and other" have been reclassified under "Individuals."

24. Segmented information

As a result of the reorganization of its activities in 2002, the Bank offers its services through four business lines: Retail Financial Services, B2B Trust and Agency Banking, Commercial Financial Services, as well as Wealth Management and Brokerage.

The Retail Financial Services segment covers the full range of savings, investment, financing and transactional products and services as well as trust services. This business line also offers Visa credit card services and insurance products.

The Commercial Financial Services segment handles commercial loans and larger financings as part of banking syndicates, as well as commercial mortgage financing, leasing, factoring and other services.

The B2B Trust and Agency Banking segment distributes self-directed RRSPs, RRIFs and other self-directed plans, investment loans, term deposits and residential mortgages.

Wealth Management and Brokerage consists of the activities of the subsidiary Laurentian Bank Securities Inc. and the Bank's share of the joint venture BLC-Edmond de Rothschild Asset Management Inc.

The category "Other" includes treasury and securitization activities and other activities of the Bank including revenues and expenses that are not attributable to the above-mentioned segments. "Other" also included special elements in 2001.

24. Segmented information (continued)

Results for the Bank's segments are based on internal financial reporting systems and are consistent with the accounting principles followed in the preparation of the Bank's consolidated financial statements for the year 2002. Transfer pricing regarding the funding of segments' assets and liabilities is based on wholesale market rates which best reflect the nature and maturities of these items. Non-interest expenses are matched against the revenues to which they relate. Indirect costs are allocated to the segments based on appropriate criteria.

2002

(in millions of dollars)	Retail Financial Services	Commercial Financial Services	B2B Trust and Agency Banking	Wealth Management and Brokerage	Other[2]	Total
Net interest income	$ 276.4	$ 67.4	$ 73.7	$ 0.1	$ (71.6)	$ 346.0
Other income	96.6	41.5	20.8	22.8	72.7	254.4
Total revenue	373.0	108.9	94.5	22.9	1.1	600.4
Provision for credit losses	27.5	82.7	0.8	—	—	111.0
Non-interest expenses	285.2	37.2	50.6	21.2	13.1	407.3
Income (loss) before income taxes and non-controlling interest in net income of a subsidiary	60.3	(11.0)	43.1	1.7	(12.0)	82.1
Income taxes (recovery)	24.0	(4.5)	17.0	0.7	(4.7)	32.5
Non-controlling interest in net income of a subsidiary	—	—	5.3	—	—	5.3
Net income (loss)	$ 36.3	$ (6.5)	$ 20.8	$ 1.0	$ (7.3)	$ 44.3
Average assets[1]	$ 10,289.3	$ 2,999.1	$ 3,687.1	$ 1,313.9	$ 280.8	$ 18,570.2
Average loans[1]	$ 10,069.0	$ 2,490.4	$ 3,293.8	$ —	$ (2,548.8)	$ 13,304.4
Average deposits[1]	$ 7,888.6	$ 43.3	$ 5,007.0	$ 0.3	$ 2,028.0	$ 14,967.2
Efficiency ratio[3]	76.5 %	34.2 %	53.5 %	92.6 %	n/a	67.8 %

2001

(in millions of dollars)	Retail Financial Services	Commercial Financial Services	B2B Trust and Agency Banking	Wealth Management and Brokerage	Other[2]	Total
Net interest income	$ 290.5	$ 61.3	$ 79.6	$ (4.0)	$ (62.2)	$ 365.2
Other income	98.7	36.5	20.5	25.4	84.5	265.6
Total revenue	389.2	97.8	100.1	21.4	22.3	630.8
Provision for credit losses	22.6	10.7	0.9	—	0.8	35.0
Non-interest expenses	310.1	32.2	51.6	24.5	27.1	445.5
Income (loss) before income taxes and non-controlling interest in net income of a subsidiary	56.5	54.9	47.6	(3.1)	(5.6)	150.3
Income taxes (recovery)	23.6	23.4	21.2	(1.5)	(9.1)	57.6
Non-controlling interest in net income of a subsidiary	—	—	2.0	—	—	2.0
Net income (loss)	$ 32.9	$ 31.5	$ 24.4	$ (1.6)	$ 3.5	$ 90.7
Average assets[1]	$ 10,571.9	$ 2,898.2	$ 3,665.2	$ 1,011.2	$ (970.4)	$ 17,176.1
Average loans[1]	$ 10,378.7	$ 2,414.2	$ 3,284.4	$ —	$ (2,938.0)	$ 13,139.3
Average deposits[1]	$ 7,664.3	$ 23.3	$ 4,763.3	$ 0.3	$ 1,631.1	$ 14,082.3
Efficiency ratio[3]	79.7 %	32.9 %	51.5 %	114.5 %	n/a	70.6 %

[1] Assets and liabilities are disclosed on an average basis as this measure is most relevant to a financial institution.
[2] Consists of treasury and securitization activities, other activities of the Bank including revenues and expenses that are not attributable to the above-mentioned segments, as well as special elements in 2001, in particular restructuring costs, gain on dilution, gain related to reinsurance of a block of credit insurance premiums and certain elements related to income taxes.
[3] Corresponds to non-interest expenses as a percentage of total revenue.

corporategovernance

The policies and practices of the Bank's corporate governance are aimed at allowing the Board to benefit from the authority, the autonomy and the information required to assume its responsibilities with regard to Management and shareholders. The corporate governance policies and practices provide for their own regular reviews and assessments by the various Board of Directors' committees.

The Bank's corporate governance practices and policies address the various guidelines of the Toronto Stock Exchange for effective governance. A comparison with these guidelines can be found in the Management Proxy Circular prepared in connection with the 2002 Annual Meeting.

Board committees

The Board has established four committees, to which it has delegated particular responsibilities and functions. Their composition takes into account legislative requirements and the nature of their mandate. All of the Board committees are composed primarily of outside directors who are independent of the management of the Bank. They all report in writing to the Board on their work.

The **Executive Committee** was established to exercise the powers conferred on it by the Board of Directors.

This committee consisted of seven directors:

Raymond McManus, Chair
L. Denis Desautels, Réjean Gagné,
Jon K. Grant, Georges Hébert,
Pierre Michaud, Jonathan I. Wener

Upon recommendation of the Human Resources and Corporate Governance Committee, the Board abolished the Executive Committee on November 7, 2002 and now exercises all the powers that it had conferred on it.

The **Audit Committee** reviews the annual and quarterly financial statements of the Bank, along with press releases and Management's discussion and analysis of the financial condition and operating results that are part of annual and quarterly financial disclosures, the implementation of appropriate control measures and any financial matters that it deems appropriate or that is referred to it by the Board. It is specifically in charge of supervising the Bank's internal audit function. In discharging their responsibilities, the Committee members meet, together and separately, with the officers and the external auditors to discuss financial matters within their terms of reference. They also meet annually with the Superintendent of Financial Institutions of Canada or his representative.

This committee consists of five outside directors:

L. Denis Desautels, Chair
Jill Bodkin, Jon K. Grant, Margot Northey,
Dominic J. Taddeo

The **Human Resources and Corporate Governance Committee** results from the amalgamation on May 29, 2002 of the Human Resources Committee and the Nominating and Governance Committee. As part of its human resources function, the Committee reviews and approves senior executive compensation, assesses the performance of the President and Chief Executive Officer and the members of the management and planning committees. It reviews the administration of short-term and long-term incentive programs, approves the annual salary policy, periodically reviews the Bank's organizational structure and approves the appointment of the executive officers. It ensures the succession of senior management, and supervises the collective bargaining process of unionized employees and receives regular reports on relations between the Bank and its employees. As part of its corporate governance function, the Committee is in charge of putting in place and monitoring

the corporate governance rules. It ensures the proper functioning and the efficiency of the Board and its committees, and reviews their composition and nominations. It is this committee that proposes the appointment of new directors and evaluates current directors. Among other duties, it reviews the compensation of the directors in relation to their responsibilities, ensures that shareholders are properly informed of Bank affairs and deals with any major disagreement between the Bank and its shareholders.

This committee consists of five outside directors:

Pierre Michaud, Chair
Ronald Corey, Réjean Gagné,
Christiane Germain, Jon K. Grant

The **Risk Management Committee** groups together three functions: conduct, credit and oversight. As part of its conduct function, the Committee monitors the application of methods for reviewing transactions with individuals or organizations related to the Bank. It monitors procedures for disclosure of information to customers concerning banking fees and of procedures for examining customer complaints. Annually, it reviews the Code of Ethics governing the Bank's employees and officers. As part of its credit function, the Committee reviews the Bank's credit policies and procedures and ensures that the highest standards of quality are maintained. It also approves loans and advances exceeding the limit established by the Board, including loans and advances to employees and officers. Furthermore, in its oversight function, the Committee reviews conflict of interest situations between the Bank and its subsidiaries, along with conflicts concerning any individual that holds a dual position. It also examines the important agreements between the Bank and its subsidiaries.

This committee consists of five outside directors:

Jonathan I. Wener, Chair
Jean Bazin, Jean-Guy Desjardins,
Georges Hébert, Veronica S. Maidman

board of directors

Jean Bazin (2002)
Ile-des-Sœurs, Verdun QC
Associate
FRASER MILNER CASGRAIN[2]

Jill Bodkin (1996)
Vancouver B.C.
Chairman of the Board
GOLDEN HERON ENTERPRISES[1]

Ronald Corey (1994)
Westmount QC
President
RONALD COREY GROUPE CONSEIL LTÉE[3]

L. Denis Desautels, O.C. (2001)
Ottawa ON
Executive Director
CENTRE ON GOVERNANCE
UNIVERSITY OF OTTAWA[1]

Jean-Guy Desjardins (2002)
Wesmount QC
President and Chief Executive Officer
FIERA CAPITAL INC.[2]

Réjean Gagné (1980)
Laval-sur-le-Lac QC
Chairman of the Board
and Chief Executive Officer
FAMCORP INC.[3]

Christiane Germain (2001)
Montreal QC
President
GROUPE GERMAIN INC.[3]

Jon K. Grant, O.C. (1988)
Peterborough ON
Chairman of the Board
CCL INDUSTRIES INC.[1, 3]

Georges Hébert (1990)
Ville Mont-Royal QC
Business consultant[2]

Veronica S. Maidman (2001)
Toronto ON
Chair, Advisory Council
EQUIFAX CANADA INC.[2]

Raymond McManus (1988)
Baie d'Urfé QC
President and Chief Executive Officer
LAURENTIAN BANK
Chairman of the Board
B2B TRUST

Pierre Michaud (1990)
Montreal QC
Co-Chairman of the Board
RÉNO-DÉPÔT INC.
and Chairman of the Board
PROVIGO INC.[3]

Margot Northey (1999)
Kingston ON
Corporate director[1]

Dominic J. Taddeo (1998)
Kirkland QC
President and Chief Executive Officer
MONTREAL PORT AUTHORITY[1]

Jonathan I. Wener (1998)
Hampstead QC
Chairman of the Board
CANDEREL MANAGEMENT INC.[2]

(1) Member of the Audit Committee
(2) Member of the Risk Management Committee
(3) Member of the Human Resources and Corporate Governance Committee

executiveofficers

Members of the Management Committee

Raymond McManus
President and Chief Executive Officer

Robert Cardinal
Senior Executive Vice-President and Chief Financial Officer

Jacques Daoust
Senior Executive Vice-President, Wealth Management and Brokerage

André Dubuc
Senior Executive Vice-President, Treasury and Capital Markets and Chief Risk Officer

Richard Guay
Senior Executive Vice-President, Retail and Commercial Financial Services

Suzanne Masson
Executive Vice-President, Human Resources, Corporate Affairs and Secretary

Charles Murphy
President and Chief Executive Officer, Laurentian Bank Securities Inc.

Michel Pelletier
Executive Vice-President, Agency Banking

V.P. Pham
Executive Vice-President and Chief Information Officer

Bernard Piché
President and Chief Executive Officer, B2B Trust

André Scott
Executive Vice-President Commercial Financial Services

Robert Teasdale
Senior Vice-President, Retail Financial Services, Ontario and Western Canada

Members of the Planning Committee

Marcel Beaulieu
Vice-President, Retail Financial Services, North Shore and West of Quebec Region

Chantal Bélanger
Senior Vice-President, Retail Financial Services, Quebec

Luc Bernard
Senior Vice-President, Marketing, Retail and Commercial Financial Services

André Bolduc (guest)
Chief Operating Officer and Chief Financial Officer
BLC-Edmond de Rothschild Asset Management Inc.

Louise Bourassa
Senior Vice-President, Administrative Services

Denise Brisebois
Vice-President, Human Resources Retail and Commercial Financial Services

Jean-Guy Calvé
Vice-President and Senior Advisor
Audit

François Desjardins
Vice-President, Call Centre and E-Banking Services

Jean-François Doyon
Vice-President, Audit and Security

Philippe Duby
Vice-President, Technology Outsourcing and Project Management

Claude Dulude
Vice-President, Commercial Banking, Quebec

Richard Fabre
Vice-President, Retail Financial Services, Downtown and South-West Montreal Region

Marco Fortier
Senior Vice-President, e-initiatives

France Gagné
Vice-President, Compensation and Benefits

William Galbraith
Vice-President, Corporate Banking, Ontario and Western Canada Region

Mario Galella
Vice-President, Retail Financial Services, Northern Montreal and West-Island Region

Michel Gendron
Vice-President, Corporate Banking, Quebec Region

Luc Gingras
Vice-President, Retail Financial Services, South of Quebec Region

Ronald Hodges (guest)
Vice-President, Product Management and Client Services, B2B Trust

Allan B. Hodgson
Vice-President, Retail Financial Services, Ontario West

Paul Hurtubise
Senior Vice-President, Real Estate Financing

Rick C. Lane
Vice-President, Real Estate Financing, Ontario

Richard Leclerc
Senior Vice-President, Business Development and Client Origination

André Lopresti
Vice-President and Chief Accountant

Jacques Lussier
Vice-President, Retail Financial Services, Quebec and East

Chris McMillan
Vice-President, Retail Financial Services, Greater Toronto and East

Yves Magnan
Senior Vice-President, Taxation

Louis Marquis
Vice-President, Credit

Pierre Minville
Vice-President, Finance, Planning and Regulated Products, Retail and Commercial Financial Services

Michael Murray
Vice-President, Planning and Investors Relations

Marlène Otis
Vice-President, Commercial Financial Services, Partners Relationships

Marc Paradis
Senior Vice-President and Controller

Lorraine Pilon
Senior Vice-President, Legal Affairs and Compliance, Assistant Secretary

Nathalie Roberge
Vice-President Public Affairs and Communications

Réjean Robitaille
Senior Vice-President and Treasurer

Claude Sasseville
Vice-President, Retail Financial Services, East of Montreal and Mauricie

Marie-Josée Sigouin
Vice-President,Labour Relations and Human Resources

Al Spadaro (guest)
Vice-President, Business Development, B2B Trust

Jean-Patrice Venne
Vice-President, Micro-Business

Rollie Zellmer
Vice-President, Retail Financial Services, Western Canada

Alicia Zemanek
Vice-President, Risk Integration and Operational Risk Management

offices

Agency Banking

MONTREAL – HEAD OFFICE
1981 McGill College Avenue
Suite 1400

425 de Maisonneuve Blvd. West

TORONTO
130 Adelaide Street West
Suite 400

Agricultural Financing

DRUMMONDVILLE
1240 Saint-Joseph Blvd.

GRANBY
40 Évangeline

LACHUTE
470 Principale Street

SAINTE-MARIE-DE-BEAUCE
16 Notre-Dame

SAINT-HYACINTHE
3425 Martineau West

SAINT-JEAN
605 Pierre-Caisse

VICTORIAVILLE
403 Jutras Blvd. East

B2B Trust

TORONTO – HEAD OFFICE
130 Adelaide Street West

MONTREAL
1981 McGill College Avenue
Suite 1400

425 de Maisonneuve Blvd.

BLC – Edmond de Rothschild Asset Management Inc.

MONTREAL
1981 McGill College Avenue
Mezzanine 255

SAINTE-FOY
2600 Laurier Blvd.
Suite 2200

TORONTO
130 Adelaide Street West
Suite 300

Brome Financial Corporation Inc.

MONTREAL
500 Sherbrooke Street West
Suite 400

Commercial Financial Services

DRUMMONDVILLE
1240 Saint-Joseph Blvd.

KITCHENER
10 Duke Street West

MARKHAM
11 Allstate Parkway
Suite 430

MISSISSAUGA
989 Derry Road East

MONTREAL
255 Crémazie East
11th Floor

SAINTE-FOY
2600 Laurier Blvd.
Suite 2210

Corporate Banking

MONTREAL
1981 McGill College Avenue
19th Floor

TORONTO
130 Adelaide Street West
Main Floor

Foreign Exchange offices

MONTREAL
1981 McGill College Avenue

TORONTO
130 Adelaide Street West
Concourse Level

VANCOUVER
800 West Pender Street
Suite 700

International services

MONTREAL
1981 McGill College Avenue
Suite 1375

Laurentian Bank Securities Inc.

CORNWALL
1140 Brookdale Avenue

DRUMMONDVILLE
645 Saint-Laurent Blvd.
Suite 100

GRANBY
20 Place du Lac

KAMOURASKA
622 Elzéar Street

LAVAL
2525 Daniel-Johnson Blvd.
Suite 500

LONGUEUIL
370 chemin Chambly

MONTREAL
1981 McGill College Avenue
Suite 100

REPENTIGNY
810 Basile-Routier

SAINTE-FOY
2600 Laurier Blvd.
Suite 2280

SAINT-JEAN-SUR-RICHELIEU
100 Richelieu Street
Suite 150

SOREL
148 Georges Street
Suite 102

TORONTO
130 Adelaide Street West

Laurentian Trust of Canada Inc.

MONTREAL
425 de Maisonneuve Blvd. West

LBC Capital II Inc.

MONTREAL
1981 McGill College Avenue
Main Floor, Office 17

LBC Financial Services

MONTREAL
425 de Maisonneuve Blvd. West
Suite 105

TORONTO
130 Adelaide Street West
3rd Floor

LBC Trust

MONTREAL
1981 McGill College Avenue
20th Floor

Private Banking

MONTREAL
1981 McGill College Avenue
Mezzanine 255

Real Estate Financing

CALGARY
301 6th Avenue S. West

KITCHENER
10 Duke Street West
Suite 100

MONTREAL
1401 McGill College Avenue
2nd Floor

TORONTO
130 Adelaide Street West
2nd Floor

VANCOUVER
800 West Pender Street
Suite 300

subsidiariesandaffiliatedcompanies

As at October 31, 2002

Name	Principal office address	Carrying value of voting shares owned by the Bank[1] ($000)	Percentage of voting shares owned by the Bank
B2B Trust[2]	Toronto, Canada	$ 135,929	74.3 %
Laurentian Trust of Canada Inc.	Montreal, Canada	$ 114,769	100 %
LBC Trust	Toronto, Canada	$ 45,913	100 %
Laurentian Bank Securities Inc.[3]	Montreal, Canada	$ 17,110	100 %
LBC Financial Services Inc.	Montreal, Canada	$ 1,600	100 %
LBC Capital II Inc.	Montreal, Canada	$ 9,296	100 %
BLC-Edmond de Rothschild Asset Management Inc.[4]	Montreal, Canada	$ 14,758	50.1 %
Brome Financial Corporation Inc.	Montreal, Canada	$ 6,733	51 %

(1) The carrying value of voting shares is stated at the Bank's net equity in these investments.
(2) B2B Trust has been a public company since June 27, 2001.
(3) Laurentian Bank Securities (USA) Inc. is a wholly-owned subsidiary of Laurentian Bank Securities Inc.
(4) BLC-Edmond de Rothschild Asset Management Inc. is a joint venture.

shareholderinformation

Head office

Tour Banque Laurentienne
1981 McGill College Avenue
Montreal, Quebec H3A 3K3
Telephone: (514) 284-4500 ext. 5996
Fax: (514) 284-3396
Telebanking Centre,
Automated Banking
and customer service:
(514) LBC-1846 (Montreal region)
No charge dial: 1-800-LBC-1846
Internet address:
www.laurentianbank.com
Telex: 145069
Swift Code: BLCM CA MM

Annual meeting

The Annual Meeting of the Shareholders of the Bank will be held Thursday, March 20, 2003, at 9:00 a.m., at the Mont-Royal Centre, 2200 Mansfield Street, Montreal, Quebec H3A 3R8.

Valuation day price

For capital gains purposes, the market value of Laurentian Bank common shares on Valuation day, December 22, 1971, adjusted for the stock splits of July 1983 and January 1987, was $3.72.

Transfer agent and Registrar

Computershare Trust
Company of Canada
1500 University Street
Suite 700
Montreal, Quebec H3A 3S8

Ombudsman's office

Laurentian Bank of Canada
130 Adelaide Street West
Suite 300
Toronto, Ontario M5H 3P5
1-800-473-4782

Laurentian Bank of Canada
Tour Banque Laurentienne
1981 McGill College Avenue
20th Floor
Montreal, Quebec H3A 3K3
(514) 284-4500 ext. 7545

Change of address and inquiries

Shareholders should notify the Transfer Agent of a change of address. Inquiries or requests may be directed to the Secretary's Office at Head Office or by calling (514) 284-4500 ext. 7545.

Investors and analysts

Investors and analysts may contact the Planning and Investors Relations Department at Head Office by calling (514) 284-4500 ext. 5907.

Media

Journalists may contact the Public Affairs and Communications Department at Head Office by calling (514) 284-4500 ext. 7511.

Direct deposit service

Shareholders of the Bank may, by advising the Transfer Agent in writing, have their dividends deposited directly into an account held at any financial institution member of the Canadian Payments Association.

This Annual Report was produced by the Public Affairs and Communications Department of Laurentian Bank.

Vous pouvez recevoir un exemplaire français de ce rapport annuel en faisant parvenir votre demande par écrit à :
Banque Laurentienne
Tour Banque Laurentienne
1981, avenue McGill College, 20e étage
Montréal (Québec) H3A 3K3

Stock symbol and dividend payment

The common and preferred shares indicated below are listed on the Toronto Stock Exchange.	Stock Symbol Code CUSIP	Dividend Record Date*	Dividend Payment Date*
Common shares	51925D 10 6 LB	First business day of: January April July October	First business day of: February May August November
Preferred shares			
Series 7	51925D 70 0 LB.PR.B	**	March 15
Series 8	51925D 80 9 LB.PR.C	**	June 15 September 15 December 15
Series 9	51925D 87 4 LB.PR.D	***	March 15 June 15 September 15 December 15

* *Subject to the approval of the Board of Directors.*
** *On such day (which shall not be more than 50 days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Board of Directors of the Bank.*
*** *On such day (which shall not be more than 30 days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Board of Directors of the Bank.*

LAURENTIAN
BANK

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